

City of Harrisburg, Pennsylvania

Financial Statements and Supplementary Information

Year Ended December 31, 2015 with
Independent Auditor's Reports

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

Pursuing the profession while promoting the public good®
www.md-cpas.com

CITY OF HARRISBURG

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	
Management's Discussion and Analysis	i
Financial Statements	
Statement of Net Position	1
Statement of Activities	3
Balance Sheet – Governmental Funds	5
Reconciliation of the Balance Sheet to the Statement of Net Position	7
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	9
Statement of Net Position – Proprietary Funds	10
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	11
Statement of Cash Flows – Proprietary Funds	12
Statement of Fiduciary Net Position	14
Statement of Changes in Fiduciary Net Position – Police Pension Trust Fund	15
Description of Component Units	16
Statement of Net Position – Component Units	17
Statement of Activities – Component Units	19
Notes to Basic Financial Statements	21
Required Supplementary Information	87
Budgetary Comparison Schedule – Budgetary (Non-GAAP) Basis – General Fund	88
Notes to Required Supplementary Information – Budgetary Comparison Schedule	89
Schedule of Changes in Net Pension Asset and Related Ratios – Non-Uniformed Employees' Pension Plan	91

CITY OF HARRISBURG

TABLE OF CONTENTS (Cont'd)

	<u>Page</u>
Schedule of Changes in Net Pension Asset and Related Ratios – Firefighters’ Pension Plan	92
Schedule of Changes in Net Pension Liability and Related Ratios – Combined Police Pension Plan	93
Schedules of City Contributions – Non-Uniformed Employees’ and Firefighters’ Pension Plans	94
Schedule of City Contributions and Investment Returns – Combined Police Pension Plan	95
Note to Required Supplementary Information – Pension Information	96
Other Post-Employment Benefit Plan	98
Supplementary Information – Combining and Individual Nonmajor Fund Financial Statements and Schedules	99
Description of Funds – Nonmajor Governmental Funds	100
Combining Balance Sheet - Nonmajor Governmental Funds	101
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Governmental Funds	102
Budgetary Comparison Schedules – Budgetary (Non-GAAP) Basis – Governmental Funds	103
Description of Funds – Agency Funds	105
Combining Statement of Fiduciary Net Position – Agency Funds	106
Combining Statement of Changes in Assets and Liabilities – Agency Funds	107
City of Harrisburg, Pennsylvania Independent Auditor’s Reports Required by the Uniform Guidance	108
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	109
Independent Auditor’s Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance	111
Schedule of Expenditures of Federal Awards	115
Notes to Schedule of Expenditures of Federal Awards	116
Summary Schedule of Prior Audit Findings	118
Schedule of Findings and Questioned Costs	124

INDEPENDENT AUDITOR'S REPORT

The Honorable Eric R. Papenfuse, Mayor
and Honorable Members of City Council
City of Harrisburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Harrisburg, Pennsylvania (City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Harrisburg Downtown Improvement District, Inc., which represent 14 percent, 2 percent, and 24 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Harrisburg Downtown Improvement District, Inc., is based solely on the report of another auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Harrisburg Parking Authority, the Harrisburg Downtown Improvement District, Inc., and the Redevelopment Authority of the City of Harrisburg were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions*," and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date*," which requires the City to record its net pension asset (liability) and related items on the government-wide and proprietary fund financial statements. Our opinion is not modified with respect to that matter.

Change in Reporting Entity

During the year ended December 31, 2015, the City determined that the Harrisburg Downtown Improvement District, Inc. qualifies as a component unit of the City. Therefore, the December 31, 2015 financial statements reflect the financial position and changes in financial position of the Harrisburg Downtown Improvement District, Inc. in the aggregate discretely presented component unit opinion unit. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), budgetary comparison information, and historical pension plan and other post-employment benefit plan information on pages i through xii, 88 through 90, and 91 through 98, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, budgetary comparison schedules, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, budgetary comparison schedules, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
September 26, 2016

This section of the City of Harrisburg's (City) Comprehensive Annual Financial Report (CAFR) presents Management's Discussion and Analysis of the City's financial performance during the year ending December 31, 2015. Readers are encouraged to consider the information within the context of the preceding Transmittal Letter and the following financial statements. The discussion also focuses on the **primary government** and unless otherwise noted, component units are not included.

Financial Highlights

- The City's assets and deferred outflows of resources as of December 31, 2015 exceeded liabilities and deferred inflows of resources by \$19,821,027, whereas at the end of 2014 assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$20,292,811 (see below for related comments on the restatement of beginning net position). The government-wide change in net position for the current year results in ending net positions for 2015 and 2014 being very comparable, and this change of (\$471,784) is summarized as follows: for governmental activities, the change in net position of (\$1,315,667) is comprised of \$63,547,943 in program and general revenues, \$1,472,238 in transfers-in, and \$66,335,848 in total expenses; for business-type activities, the change in net position of \$843,883 includes \$13,084,297 in program and other revenues, \$1,472,238 in transfers-out, and \$10,768,176 in total expenses.
 - Net investment in capital assets, in the amount of \$53,049,247 and \$52,758,218 as of December 31, 2015 and 2014, respectively, represents all capital assets including infrastructure.
 - Restricted net position with external restrictions imposed by creditors or laws or regulations of other governments amounted to \$35,370,418 and \$42,616,182 as of December 31, 2015 and 2014 (restated), respectively.
 - Unrestricted net position, which is net position not restricted for any particular purpose, amounts to (\$68,598,638) and (\$75,081,589) as of December 31, 2015 and 2014 (restated), respectively.
- With respect to comparative financial information presented within this analysis, beginning total net position was restated and, as a result, significantly increased, which is mainly attributed to the City adopting GASB Statement Nos. 68 and 71 relative to pension plan reporting and pension contributions occurring subsequent to measurement (see Note 1 to the basic financial statements). This implementation has resulted in a \$13.4 million restatement of beginning net position for governmental activities and a \$2.5 million restatement of beginning net position for business-type activities.
- In 2015, the City also appropriated budgets for the establishment of six new non-major special revenue funds including Blight Remediation, Special Events, Fire Protection, Police Protection, Parks and Recreation, and WHBG-TV.

Overview of the Financial Statements

The financial section of the CAFR consists of five parts in the following order: the independent auditor's report on the financial statement audit, Management's Discussion and Analysis (MD&A), the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements can be further classified into the following three types: government-wide financial statements, fund financial statements, and notes to the basic financial statements.

1. **Government-Wide Financial Statements** The government-wide financial statements provide a summary of the City's financial condition in a similar fashion to the private business sector. The

focus of these statements is the economic resources measurement and full accrual basis of accounting.

The City's net position is reported as the difference between combined assets and deferred outflows of resources, and combined liabilities and deferred inflows of resources. Increases and decreases in net position serve as a good indicator of the financial condition improving or deteriorating.

The Statement of Activities presents information on how net position changed during the year. All changes are recorded as soon as the change occurs even though cash may not be received yet; cash flow may even occur in a later fiscal year, such as uncollected taxes and vacation leave earned, but not used. The Statement of Net Position and the Statement of Activities distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The City's governmental activities are comprised of general government, community and economic development, public safety (police and fire), public works, environment, and interest on long-term debt. The business-type activities of the City are accounted for within the Harrisburg Senators, Incinerator (Disposal), and Sanitation Funds.

2. **Fund Financial Statements** A fund is a grouping of related accounts used to control resources that are separated by activity. Fund accounting is used by the City to monitor and show compliance with budgetary requirements. Funds are either governmental, proprietary, or fiduciary funds.

- a. **Governmental Funds** Governmental funds are used to account for the functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented by the two in order to better understand the long-term impact of near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City reports three major governmental funds: (1) the General Fund, which accounts for all financial resources of the general government except those accounted for in another fund; (2) the Grants Programs Fund, which accounts for the revenues and expenditures of federal, state, and other grant programs including the Community Development Block Grant Entitlement Program; and (3) the Debt Service Fund, which accounts for the accumulation of resources, which are principally transfers from other funds, for the payment of general long-term obligation principal, interest, and related costs. Data from all the other non-major governmental funds are combined into a single aggregated presentation with individual fund data provided in the form of combining statements in supplementary information.

- b. **Proprietary Funds** The City's proprietary funds are all classified as enterprise funds. They are used to account for the operations that are financed and operated in a manner similar to private

business enterprises. The intent of the governing body is that the expenses of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges or when the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, and/or other purposes.

The City reports three major enterprise funds: (1) the Harrisburg Senators Fund, which accounts for the revenues and expenses associated with the payment of debt on the financing of a new stadium of the Harrisburg Senators, a AA minor league baseball franchise formerly owned by the City; (2) the Incinerator (Disposal) Fund, which accounts for the collection and remittance of incinerator/resource recovery disposal fees billed by the City of Harrisburg and remitted to the Lancaster County Solid Waste Management Authority for its provision of solid waste incineration services to the residents and commercial and industrial establishments of the City; and (3) the Sanitation Fund, which accounts for the revenues and expenses associated with the provision of refuse collection services to the residents and commercial establishments of the City.

- c. **Fiduciary Funds** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City's fiduciary funds are all classified as trust and agency funds. Fiduciary fund financial statements report similarly to proprietary funds.
3. **Notes to the Basic Financial Statements** The Notes give additional information that is necessary to understand fully the data provided in the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.
4. **Other Information** The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund, in required supplementary information, to demonstrate compliance with this budget. In addition, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees. The combining statements referred to earlier in connection with non-major governmental funds and agency funds are presented immediately following the required supplementary information.

CITY OF HARRISBURG, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

Government-wide Financial Analysis

CITY OF HARRISBURG
CONDENSED STATEMENT OF NET POSITION
DECEMBER 31, 2015 AND 2014

	Governmental Activities		Business-type Activities		Totals	
	2015	2014 (restated)	2015	2014 (restated)	2015	2014 (restated)
Current and other assets	\$ 80,039,903	\$ 96,266,688	\$ 15,722,323	\$ 15,386,048	\$ 95,762,226	\$ 111,652,736
Capital assets, net accum. deprec.	92,273,333	95,667,013	32,096,469	32,799,632	124,369,802	128,466,645
Total assets	172,313,236	191,933,701	47,818,792	48,185,680	220,132,028	240,119,381
Deferred outflows for pensions	13,198,927	-	629,344	-	13,828,271	-
Current and other liabilities	13,221,750	27,586,664	688,600	1,010,316	13,910,350	28,596,980
Noncurrent liabilities	190,940,922	182,493,559	8,476,320	8,736,031	199,417,242	191,229,590
Total liabilities	204,162,672	210,080,223	9,164,920	9,746,347	213,327,592	219,826,570
Deferred inflows for pensions	811,680	-	-	-	811,680	-
Net investment in						
capital assets	27,613,046	26,922,301	25,436,201	25,835,917	53,049,247	52,758,218
Restricted	33,087,175	39,490,903	2,283,243	3,125,279	35,370,418	42,616,182
Unrestricted	(80,162,410)	(84,559,726)	11,563,772	9,478,137	(68,598,638)	(75,081,589)
Total net position	\$ (19,462,189)	\$ (18,146,522)	\$ 39,283,216	\$ 38,439,333	\$ 19,821,027	\$ 20,292,811

Net position may serve over time as a useful indicator of the government's financial position. As noted previously under Financial Highlights, the City's total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by \$19,821,027 as of December 31, 2015. Significant changes during 2015 in current and other assets and current and other liabilities are reflected above for governmental activities; specifically, the decreases in these line items are related to the \$12,360,545 disbursement of Harrisburg Strong Plan initial growth funds for the purpose of satisfying the obligation to create the nonprofit entity, Impact Harrisburg. Also of further note is the dramatic effect of the \$15.9 million restatement of beginning net position attributed to the implementation of GASB Statement Nos. 68 and 71 for pension accounting and reporting (see Note 1 to the basic financial statements). This restatement has affected net position for both governmental and business-type activities and has also resulted in very comparable government-wide ending net positions for years 2015 and 2014.

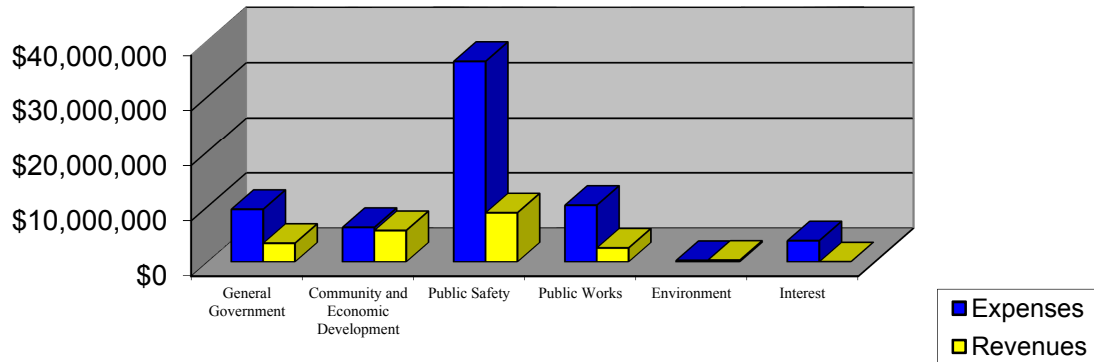
The largest portion of the City's net position is its investment in capital assets (i.e., land, artifacts, building, land and building improvements, equipment and furniture, infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used by the City to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted the resources needed to repay this debt must come from other sources as these capital assets cannot be used to liquidate these debt obligations.

CITY OF HARRISBURG, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

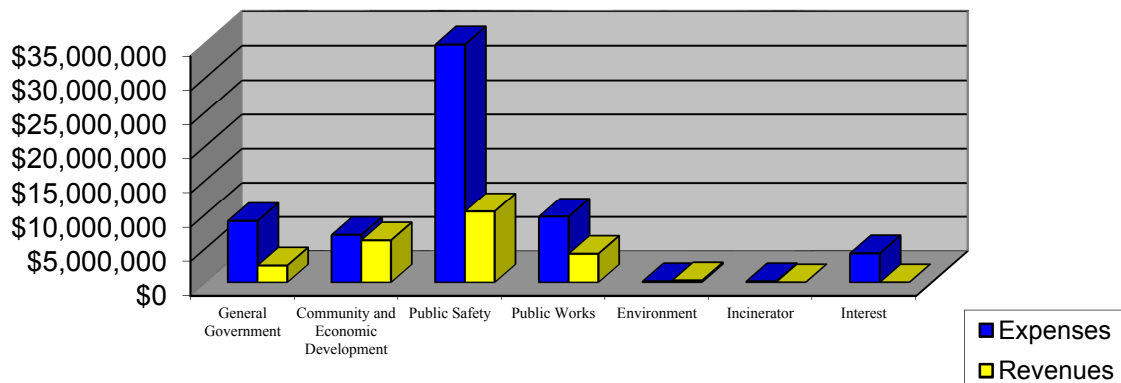
CITY OF HARRISBURG
CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2015 AND 2014

	Governmental Activities		Business-type Activities		Totals	
	2015	2014 (restated)	2015	2014 (restated)	2015	2014 (restated)
Revenues						
Program revenues:						
Charges for services	\$ 8,946,183	\$ 9,814,191	\$ 13,035,650	\$ 14,169,934	\$ 21,981,833	\$ 23,984,125
Operating grants and contributions	10,997,750	13,214,573	46,609	-	11,044,359	13,214,573
Capital grants and contributions	736,564	347,311	-	-	736,564	347,311
General revenues:						
Taxes	37,540,931	38,463,632	-	-	37,540,931	38,463,632
Grants and contributions not restricted to specific functions	3,358,159	3,538,398	-	-	3,358,159	3,538,398
Other	1,968,356	1,467,928	2,038	3,809	1,970,394	1,471,737
Total revenues	63,547,943	66,846,033	13,084,297	14,173,743	76,632,240	81,019,776
Expenses						
General government	9,490,724	8,962,050	-	-	9,490,724	8,962,050
Community/Economic development	6,229,752	6,906,424	-	-	6,229,752	6,906,424
Public safety	36,322,347	34,720,194	-	-	36,322,347	34,720,194
Public works	10,229,336	9,593,222	-	-	10,229,336	9,593,222
Incinerator	-	157,733	-	-	-	157,733
Environment	249,209	159,205	-	-	249,209	159,205
Interest on long-term debt	3,814,480	4,217,747	-	-	3,814,480	4,217,747
Sanitation	-	-	2,612,193	1,916,478	2,612,193	1,916,478
Harrisburg Senators	-	-	1,294,895	1,309,197	1,294,895	1,309,197
Incinerator (Disposal)	-	-	6,861,088	5,677,460	6,861,088	5,677,460
Total expenses	66,335,848	64,716,575	10,768,176	8,903,135	77,104,024	73,619,710
Change in net position before transfers	(2,787,905)	2,129,458	2,316,121	5,270,608	(471,784)	7,400,066
Transfers	1,472,238	1,111,837	(1,472,238)	(1,111,837)	-	-
Change in net position	(1,315,667)	3,241,295	843,883	4,158,771	(471,784)	7,400,066
Net position, January 1	(18,146,522)	(34,809,001)	38,439,333	31,811,889	20,292,811	(2,997,112)
Restatement - effect of implementing GASB Stmt Nos. 68 & 71 (see Note 1)	-	13,421,184	-	2,468,673	-	15,889,857
Net position, December 31	\$ (19,462,189)	\$ (18,146,522)	\$ 39,283,216	\$ 38,439,333	\$ 19,821,027	\$ 20,292,811

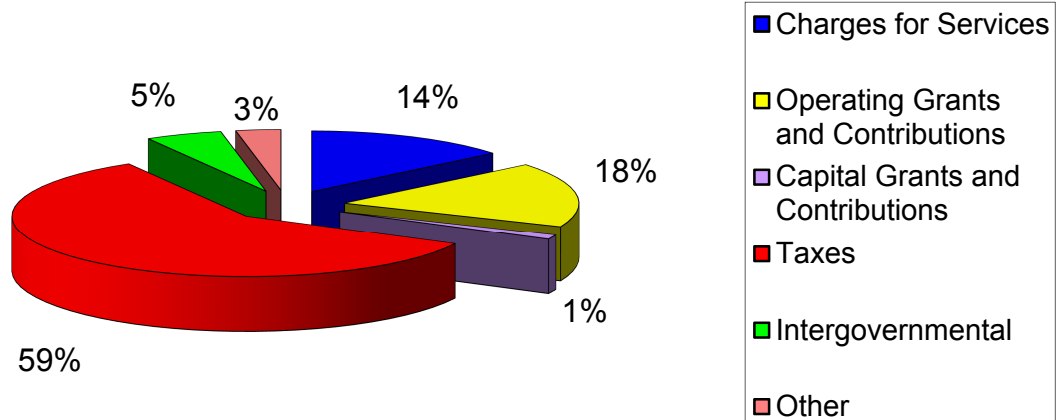
Expenses and Program Revenues Governmental Activities - 2015



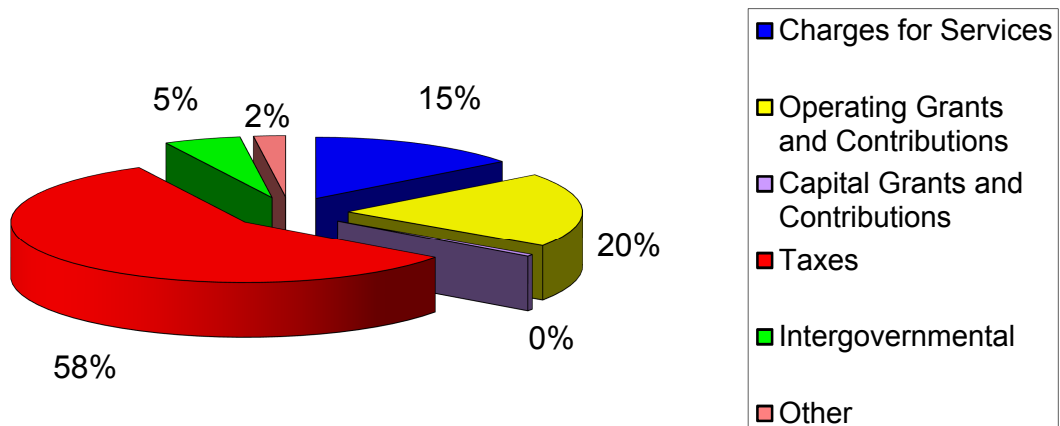
Expenses and Program Revenues Governmental Activities - 2014



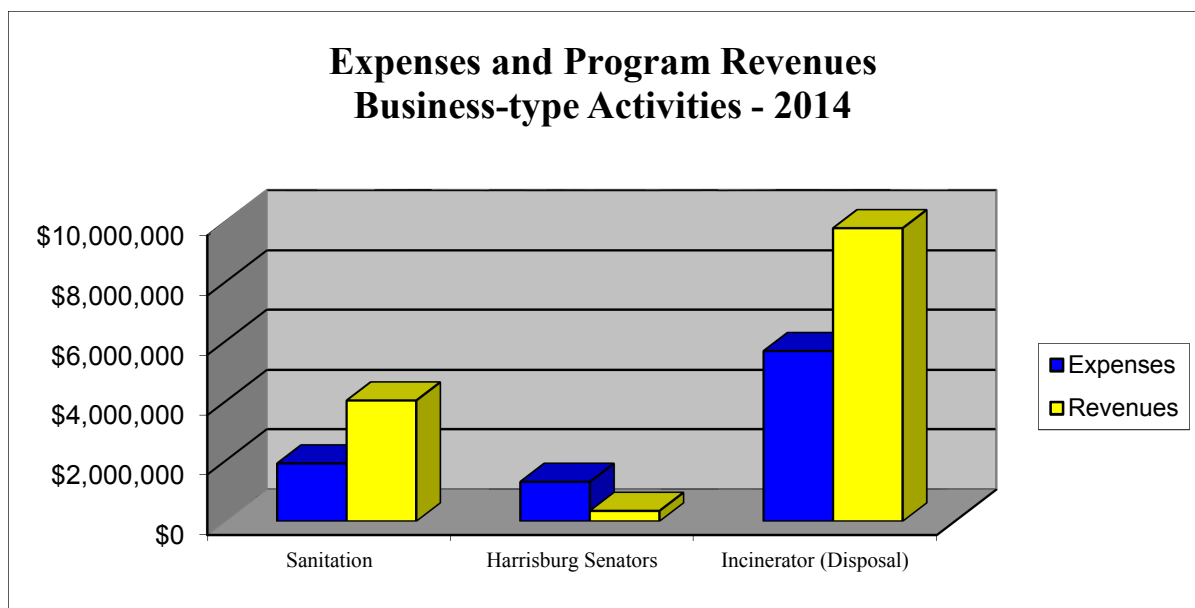
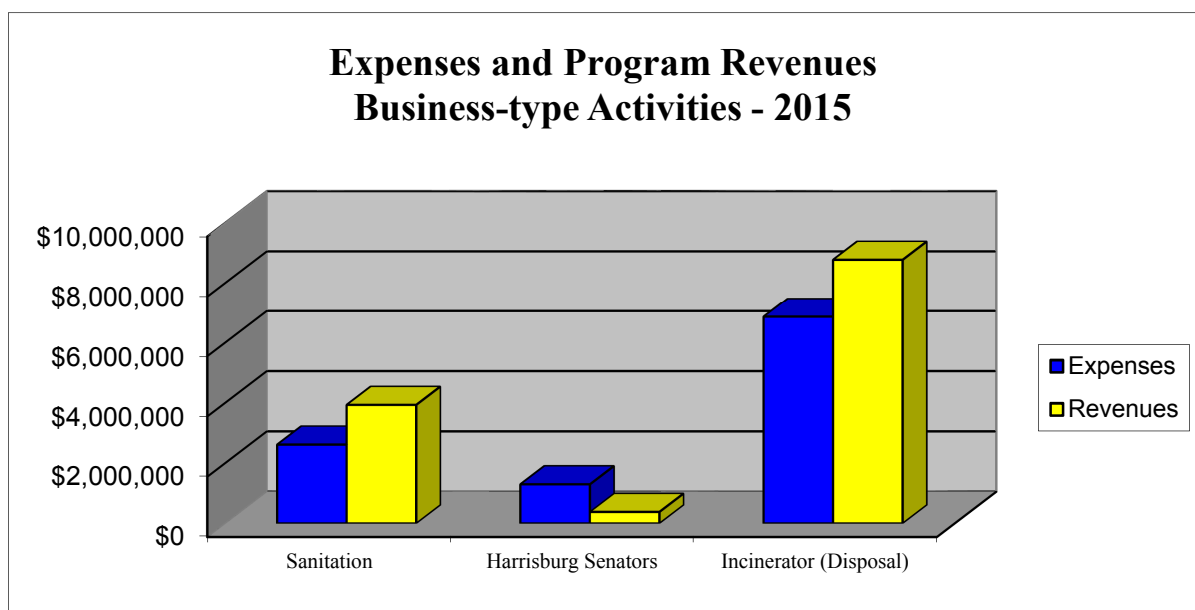
Revenues by Source - Governmental Activities 2015



Revenues by Source - Governmental Activities - 2014



Governmental Activities: Change in net position in 2015 for governmental activities amounted to (\$1,315,667) compared with a change in net position of \$3,241,295 occurring for 2014, resulting in a decrease of \$4,556,962 for such activity. This decrease can be related to an increase in total expenses and a decrease in total program revenues, described as follows: for total expenses, the noted increase of \$1,619,273 is mainly related to much larger pension expense occurring in public safety and public works due to the implementation of GASB Statement Nos. 68 and 71 relative to pension accounting and reporting; for total program revenues, the noted decrease of \$2,695,578 is mostly attributed to operating grants declining with \$136,603 less in disaster grants funding, \$546,766 less in Lead-Based Paint Hazard Control revenue, over \$800,000 less in Staffing for Adequate Fire and Emergency Response revenue, and approximately \$1 million less in needed and combined Community Development Block Grant and HOME Investment Partnership Program funding.



Business-Type Activities: Change in net position in 2015 for business-type activities amounted to \$843,883 compared with a change in net position of \$4,158,771 occurring for 2014, resulting in a decrease of \$3,314,888 for such activity. This decrease can be related to the following noted items applicable to the City's Sanitation and Incinerator (Disposal) Funds: for Sanitation, expenses increased due to more utilization of available budgeted amounts for general administrative charges benefiting the General Fund (\$460,000 higher) and an interfund transfer also benefiting the General Fund (\$362,150 higher); for Disposal, expenses increased by \$1.2 million resulting from the purchase of various trash and recycling containers in support of the City's efforts for reducing abandoned trash problems and promoting the related recycling initiative, and also revenue decreased by \$1.2 million due to a warranted adjustment for increasing the receivable allowance on certain significantly large ready-to-dispose charge utility billing accounts.

Financial Analysis of the City's Funds

Governmental Funds The focus of the City's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of government's net resources available for spending at the end of the fiscal year. As of December 31, 2015, the City's governmental funds reported a combined ending fund balance of \$33,393,329 representing an increase change of \$3,655,658 during 2015, whereas for 2014 an increase in fund balance occurred amounting to \$4,724,490.

This approximate \$1 million decrease in change in fund balance can be primarily attributed to intergovernmental revenues declining by approximately \$3 million (due to \$645,500 less in parking system ground lease revenue being recognized for the General Fund and \$2,346,766 less in various Federal grant revenues occurring within the Grant Programs Fund), and to an approximate \$2 million in remaining proceeds within the Capital Projects Fund related to a lease/purchase agreement for financing costs associated with the City's streetlight LED conversion/upgrade project.

The Grant Programs Fund generally does not report a fund balance. In this fund, revenue is recognized only when allowable expenditures are incurred and the legal and contractual requirements of the individual programs are met. The fund balance of the Debt Service Fund decreased over the prior year by \$76,000 reflecting further use of residual auction proceeds from the previous sale of historic artifacts for authorized expenditure within the public works function.

General Fund Budgetary Highlights

On a budgetary (non-GAAP) basis, the General Fund's actual amounts for 2015 resulted in a negative net change in fund balance of \$18.4 million, compared to an essentially break-even final budget for the fiscal year; this unfavorable variance is summarized with several related factors as follows:

Total revenues being under budget by \$3.8 million is attributed to approximately \$500,000 less in payments in lieu of taxes due to one significant payer remitting two annual payments in 2014, \$285,000 less in hotel tax revenue due to over-budgeting, approximately \$1,200,000 less in earned income tax revenue also due to over-budgeting, approximately \$281,400 less in anticipated pension system state aid received from the Commonwealth of Pennsylvania (Commonwealth), \$496,000 in capital fire protection revenue not being received from the Commonwealth due to delays in the state budget preparation/approval process (received

subsequently in March, 2016), \$472,100 less in parking system ground lease revenue from the Harrisburg Parking Authority due to timing of the involved payments, and approximately \$400,000 less in related parking system ground lease revenue also mainly due to payment timing by the Pennsylvania Economic Development Financing Authority.

Total expenditures being over budget by \$9.5 million is attributed to the unbudgeted \$12,360,545 disbursement of Harrisburg Strong Plan initial growth funds for the purpose of satisfying the obligation to create the nonprofit entity, Impact Harrisburg; \$1.8 million in public works budgetary savings due to less in general electricity expense, in heat utility expense, in building maintenance expense, less applicable payroll costs as a result of full budgeted personnel not materializing, less in electric power for streetlights, in capital equipment expenditures, in vehicle maintenance and repairs, in vehicle parts and supplies, and significantly larger encumbrance commitments still in effect at year-end resulting in less applicable budget being used; \$500,000 in public safety budgetary savings due to less in police overtime, in police extra duty salaries and wages, and again significantly larger encumbrance commitments still in effect at year-end resulting in less applicable budget being used; and \$700,000 in budgetary savings, relative to the Offices of City Treasurer and City Solicitor and to the Bureaus of Financial Management and Information Technology, comprised of payroll costs being lower due to existing staffs operating at less than full capacity and also significantly larger encumbrance commitments still being in effect at year-end resulting in less applicable budget being used.

Total other financing sources (uses), specifically, the transfers-in line item being under budget by \$4.7 million is attributed to \$4,504,000 in Pennsylvania Department of Community and Economic Development public safety grant funds not being received from the Commonwealth due to delays in the state budget preparation/approval process (received subsequently in February, 2016).

Capital Asset and Debt Administration

1. **Capital assets** The City's capital assets for its governmental activities and business-type activities as of December 31, 2015 amount to \$92,273,333 and \$32,096,469 (net of accumulated depreciation), respectively. This investment in capital assets includes land, artifacts, buildings, land and building improvements, equipment and furniture, and infrastructure.

Major capital asset events during 2015 for governmental activities included the following:

- A significant portion of the total capital additions included \$413,861 in engineering design and construction costs associated with a multi-street paving project, \$315,666 in construction costs for the Asylum Run stormwater project, and \$1,049,553 in infrastructure costs relative to the City's ongoing streetlight LED conversion/upgrade project.
- In a fire vehicles exchange, the City disposed of significantly older and essentially fully depreciated fire trucks which had a combined original cost of \$1,166,200.

For business-type activities, \$247,900 in capital additions occurred as the City strengthened its fleet of refuse and recycling trucks.

Additional information on the City's capital assets can be found beginning on page 51 of this report.

2. **Long-term debt** The only debt activity in the City's governmental or business-type activities was the required principal and interest payments under existing debt arrangements, including restructuring activity relative to the City's bond insurer.

Additional information on the City's long-term debt can be found beginning on page 53 of this report.

Economic Factors

Arguably, one of the most significant factors affecting financial position is the City's ongoing efforts to achieve a healthy budget free from previous burdening structural deficit conditions as it continues to further manage existing debt service requirements.

Additionally, the most significant unfunded mandate affecting the City is the liberal allowance for tax-exemption existing in Pennsylvania. What was already a broadly-accommodating state law was further loosened several years ago by additional state legislative action. Today, approximately 49% of all real estate in the City is exempt from paying any type of taxes under state law. The number of properties achieving tax-exemption increases by the year. Some of the tax exempt-properties are among the greatest generators of demand for City services, and what results is a continuing inequitable and unfair burden on Harrisburg placing a higher tax rate on those who do pay property taxes.

Some of the factors affecting the City's costs are matters over which a local government has little control; other factors are only marginally controllable. The following are a number of circumstances that will impact future costs:

- (a) Health care costs have been on the rise and each year the City projects these costs to remain substantial; however due to turnover and vacant positions in recent years, these costs have somewhat stabilized or have even become lower. As the City looks to become more fully staffed, there will be a related increase in such costs.
- (b) Salaries for the City's Police, Firefighter, and Non-Uniformed unions were negotiated for no increases in both years 2013 and 2014; for both fiscal years 2015 and 2016, a 1% increase in salaries and wages is in effect for each of these collective bargaining units.
- (c) Pension benefits and OPEB obligations of the primary government are also considered here, as these liabilities have experienced continuous increases in recent years.
- (d) The Harrisburg Strong Plan provides for the agreed-to settlement of reimbursable amounts owed to several suburban municipalities in accordance with a negotiated compromise of the involved claim, and reimbursement to the City's bond insurer for advances made on the City's behalf involving the 1997 Series General Obligation Refunding Bonds and Notes. These related repayments have been scheduled to occur over multiple years beginning in 2013 through fiscal year 2032.

Requests for Information

This financial report is designed for those who have an interest in the City's finances. Questions concerning any of the information provided in this report, requests for additional information, or complete financial statements for the discretely presented component units should be addressed to the City's Bureau of Financial Management, The Rev. Dr. Martin Luther King Jr., City Government Center, 10 North Second Street, Suite 302, Harrisburg, PA 17101. You may also find more information regarding the City at our website www.harrisburgpa.gov.

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF NET POSITION
DECEMBER 31, 2015

	Primary Government			Component Units	Total
	Governmental Activities	Business-type Activities	Total		
Assets					
Cash and cash equivalents	\$ 9,881,592	\$ 7,298,655	\$ 17,180,247	\$ 2,301,941	\$ 19,482,188
Investments, at fair value	4,663,678	278,457	4,942,135	-	4,942,135
Receivables, net of allowance for uncollectible accounts					
Taxes	12,594,174	-	12,594,174	-	12,594,174
Accounts	-	3,413,973	3,413,973	238,071	3,652,044
Rent	790,160	-	790,160	678,542	1,468,702
Loans	775,773	-	775,773	243,299	1,019,072
Notes	7,056,566	-	7,056,566	-	7,056,566
Other	9,829,688	1,311,912	11,141,600	-	11,141,600
Internal balances	314,081	(314,081)	-	-	-
Due from City's agency fund	201,759	-	201,759	-	201,759
Due from component unit	678,542	-	678,542	-	678,542
Other assets	119,732	56,174	175,906	31,055	206,961
Restricted assets					
Cash and cash equivalents	13,990,596	43,990	14,034,586	-	14,034,586
Investments, at fair value	-	658,241	658,241	3,985,103	4,643,344
Security deposit	-	1,350,000	1,350,000	-	1,350,000
Right to building	-	-	-	20,369,411	20,369,411
Net pension asset	19,143,562	1,625,002	20,768,564	-	20,768,564
Capital assets, not being depreciated	25,793,863	-	25,793,863	30,000	25,823,863
Capital assets, less accumulated depreciation and amortization	66,479,470	32,096,469	98,575,939	12,061,196	110,637,135
Total assets	172,313,236	47,818,792	220,132,028	39,938,618	260,070,646
Deferred Outflows of Resources					
Deferred outflows of resources for pensions	13,198,927	629,344	13,828,271	-	13,828,271

(continued)

	Primary Government			Component Units	Total
	Governmental Activities	Business-type Activities	Total		
Liabilities					
Accounts payable and other current liabilities	3,870,919	605,837	4,476,756	227,263	4,704,019
Matured bond coupons	20,097	-	20,097	-	20,097
Accrued liabilities	4,957,701	82,763	5,040,464	77,525	5,117,989
Due to primary government	-	-	-	678,542	678,542
Due to other entities	482,666	-	482,666	-	482,666
Unearned revenue	3,890,367	-	3,890,367	-	3,890,367
Noncurrent liabilities:					
Due within one year	12,901,345	345,326	13,246,671	4,020,523	17,267,194
Due in more than one year	70,778,543	6,626,342	77,404,885	58,925,356	136,330,241
Net pension liability	16,696,432	-	16,696,432	-	16,696,432
Other post-employment benefits	75,253,064	1,504,652	76,757,716	-	76,757,716
Liability under guarantee	15,311,538	-	15,311,538	-	15,311,538
Total liabilities	204,162,672	9,164,920	213,327,592	63,929,209	277,256,801
Deferred Inflows of Resources					
Deferred inflows of resources for pensions	811,680	-	811,680	-	811,680
Net position					
Net investment in capital assets	27,613,046	25,436,201	53,049,247	11,011,071	64,060,318
Restricted for:					
Revolving loan program	534,487	-	534,487	222,729	757,216
General government	10,636	-	10,636	-	10,636
Environment	518,106	-	518,106	-	518,106
Public works	888,036	-	888,036	-	888,036
Public safety	496,516	-	496,516	-	496,516
Community and economic development	358,992	-	358,992	-	358,992
Blight remediation	-	-	-	249,666	249,666
Tourism	1,113,387	-	1,113,387	-	1,113,387
Debt service	-	658,241	658,241	3,985,103	4,643,344
Growth funds	9,956,357	-	9,956,357	-	9,956,357
Net pension asset	19,143,562	1,625,002	20,768,564	-	20,768,564
Other	67,096	-	67,096	-	67,096
Insurer agreement	-	-	-	347,978	347,978
Unrestricted	(80,162,410)	11,563,772	(68,598,638)	(39,807,138)	(108,405,776)
Total net position	\$ (19,462,189)	\$ 39,283,216	\$ 19,821,027	\$ (23,990,591)	\$ (4,169,564)

The accompanying notes are an integral
part of these financial statements.

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	\$ 9,490,724	\$ 3,241,988	\$ -	\$ 116,867
Community and economic development	6,229,752	1,514,166	4,139,183	-
Public safety	36,322,347	3,046,433	5,766,635	46,708
Public works	10,229,336	844,318	1,091,932	572,989
Environment	249,209	299,278	-	-
Interest on long-term debt	3,814,480	-	-	-
Total governmental activities	66,335,848	8,946,183	10,997,750	736,564
Business-type activities				
Harrisburg Senators	1,294,895	379,738	-	-
Incinerator	6,861,088	8,772,452	-	-
Sanitation	2,612,193	3,883,460	46,609	-
Total business-type activities	10,768,176	13,035,650	46,609	-
Total primary government	\$ 77,104,024	\$ 21,981,833	\$ 11,044,359	\$ 736,564
Component units				
Harrisburg Parking Authority	\$ 1,999,717	\$ 208,304	\$ -	\$ -
Harrisburg Downtown Improvement District	743,657	635,667	105,895	-
Redevelopment Authority	5,084,009	1,138,863	250,845	33,333
Total component units	\$ 7,827,383	\$ 1,982,834	\$ 356,740	\$ 33,333

General revenues
Property taxes
Real estate transfer taxes
Local services taxes
Earned income taxes
Business privilege taxes
Franchise taxes
Public utility realty taxes
Payments in lieu of taxes
Grants and contributions not restricted to specific functions
Gain on sale of assets
Other income
Unrestricted investment earnings
Transfers - internal activities
Special item

Total general revenues, transfers, and special item

Change in net position

Net position - January 1, 2015 - restated

Net position - December 31, 2015

Net (Expense) Revenue and Changes in Net Position				
Primary Government		Total	Component Units	Total
Governmental Activities	Business-type Activities			
\$ (6,131,869)	\$ -	\$ (6,131,869)	\$ -	\$ (6,131,869)
(576,403)	-	(576,403)	-	(576,403)
(27,462,571)	-	(27,462,571)	-	(27,462,571)
(7,720,097)	-	(7,720,097)	-	(7,720,097)
50,069	-	50,069	-	50,069
(3,814,480)	-	(3,814,480)	-	(3,814,480)
(45,655,351)	-	(45,655,351)	-	(45,655,351)
-	(915,157)	(915,157)	-	(915,157)
-	1,911,364	1,911,364	-	1,911,364
-	1,317,876	1,317,876	-	1,317,876
-	2,314,083	2,314,083	-	2,314,083
(45,655,351)	2,314,083	(43,341,268)	-	(43,341,268)
-	-	-	(1,791,413)	(1,791,413)
-	-	-	(2,095)	(2,095)
-	-	-	(3,660,968)	(3,660,968)
-	-	-	(5,454,476)	(5,454,476)
16,728,825	-	16,728,825	-	16,728,825
821,880	-	821,880	-	821,880
2,202,865	-	2,202,865	-	2,202,865
10,693,585	-	10,693,585	-	10,693,585
6,316,908	-	6,316,908	-	6,316,908
560,101	-	560,101	-	560,101
45,699	-	45,699	-	45,699
171,068	-	171,068	-	171,068
3,358,159	-	3,358,159	-	3,358,159
73,532	-	73,532	-	73,532
-	-	-	43,941	43,941
1,894,824	2,038	1,896,862	1,243,754	3,140,616
1,472,238	(1,472,238)	-	-	-
-	-	-	610,000	610,000
44,339,684	(1,470,200)	42,869,484	1,897,695	44,767,179
(1,315,667)	843,883	(471,784)	(3,556,781)	(4,028,565)
(18,146,522)	38,439,333	20,292,811	(20,433,810)	(140,999)
\$ (19,462,189)	\$ 39,283,216	\$ 19,821,027	\$ (23,990,591)	\$ (4,169,564)

The accompanying notes are an integral
part of these financial statements.

CITY OF HARRISBURG, PENNSYLVANIA
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General	Grant Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS					
Assets					
Cash and cash equivalents	\$ 6,268,854	\$ 2,136,297	\$ 75,070	\$ 1,401,371	\$ 9,881,592
Investments, at fair value	1,128,321	1,233,996	8,075	2,293,286	4,663,678
Receivables, net of allowance for uncollectible accounts					
Taxes	12,529,676	-	-	64,498	12,594,174
Rent	790,160	-	-	-	790,160
Loans	534,487	241,286	-	-	775,773
Notes	7,056,566	-	-	-	7,056,566
Other	4,923,486	4,809,269	-	96,933	9,829,688
Due from other funds	6,960,881	720,351	-	309,205	7,990,437
Due from component unit	678,542	-	-	-	678,542
Other assets	119,732	-	-	-	119,732
Restricted assets					
Cash and cash equivalents	10,023,453	-	-	3,967,143	13,990,596
Total assets	<u>\$ 51,014,158</u>	<u>\$ 9,141,199</u>	<u>\$ 83,145</u>	<u>\$ 8,132,436</u>	<u>\$ 68,370,938</u>

(Continued)

	General	Grant Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 2,438,071	\$ 700,378	\$ 30,650	\$ 701,820	\$ 3,870,919
Accrued liabilities	420,083	9,220	-	2,034	431,337
Due to other entities	482,666	-	-	-	482,666
Compensated absences	278,254	-	-	-	278,254
Matured bond coupons payable	-	-	20,097	-	20,097
Due to other funds	797,813	5,635,256	-	1,041,528	7,474,597
Unearned revenue	118,636	2,796,345	-	139,572	3,054,553
Total liabilities	4,535,523	9,141,199	50,747	1,884,954	15,612,423
Deferred inflows of resources					
Unavailable revenue - taxes	9,840,084	-	-	-	9,840,084
Unavailable revenue - notes receivable	7,056,566	-	-	-	7,056,566
Unavailable revenue - component unit	678,542	-	-	-	678,542
Unavailable revenue - other entities	1,789,994	-	-	-	1,789,994
Total deferred inflows of resources	19,365,186	-	-	-	19,365,186
Fund balance					
Nonspendable	119,732	-	-	-	119,732
Restricted for					
Revolving loan program	534,487	-	-	-	534,487
General government	-	-	-	10,636	10,636
Environment	-	-	-	518,106	518,106
Public works	-	-	-	888,036	888,036
Public safety	-	-	-	496,516	496,516
Community and economic development	-	-	-	358,992	358,992
Tourism	-	-	-	1,113,387	1,113,387
Other	67,096	-	-	-	67,096
Capital projects	-	-	-	2,861,809	2,861,809
Growth funds	9,956,357	-	-	-	9,956,357
Assigned for					
2016 budget	441,952	-	-	-	441,952
Public works	-	-	32,398	-	32,398
Encumbrances					
General government	423,291	-	-	-	423,291
Public works	468,643	-	-	-	468,643
Public safety	329,846	-	-	-	329,846
Community and economic development	10,807	-	-	-	10,807
Unassigned	14,761,238	-	-	-	14,761,238
Total fund balance	27,113,449	-	32,398	6,247,482	33,393,329
Total liabilities, deferred inflows of resources, and fund balance	\$ 51,014,158	\$ 9,141,199	\$ 83,145	\$ 8,132,436	\$ 68,370,938

The accompanying notes are an integral
part of these financial statements.

CITY OF HARRISBURG, PENNSYLVANIA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2015

Fund balance - total governmental funds \$ 33,393,329

Amounts reported for governmental activities in the statement
of net position are different because:

Capital assets used in governmental activities are not financial
resources and, therefore, are not reported in the governmental funds.

Governmental capital assets	\$ 248,660,858	
Less accumulated depreciation	<u>(156,387,525)</u>	92,273,333

Receivables that are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds.	19,365,186
--	------------

Net pension asset, net of related deferred inflows and outflows of resources	31,530,809
--	------------

Guarantee fees are reported on the statement of net position for governmental activities and amortized over the life of the guarantee period, but are available to pay current-period expenditures and, therefore, are not reported in the funds.	(835,814)
--	-----------

Long-term liabilities, including bonds payable, are not due and payable
in the current period and, therefore, are not reported in the funds.

Workers' compensation	(3,580,745)	
Bonds payable	(19,384,564)	
Notes payable	(34,580,572)	
Capital leases payable	(3,420,351)	
Compensated absences	(5,292,047)	
Compensated absences due and payable at December 31, 2015	278,254	
Claims and judgments	(675,000)	
Due to bond insurer	(13,696,609)	
Settlement with suburban municipalities	(3,725,000)	
Liability under guarantee	(15,311,538)	
Net pension liability	(16,696,432)	
Other post-employment benefits	(75,253,064)	
Accrued interest payable	<u>(3,851,364)</u>	<u>(195,189,032)</u>

Net position of governmental activities	\$ <u><u>(19,462,189)</u></u>
---	-------------------------------

The accompanying notes are an integral
part of these financial statements.

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2015

	General	Grant Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 36,941,877	\$ -	\$ -	\$ -	\$ 36,941,877
Licenses and permits	594,605	-	-	-	594,605
Intergovernmental revenue	3,551,836	8,170,039	-	1,133,282	12,855,157
Department earnings and program revenue	4,232,503	1,166,199	-	1,561,333	6,960,035
Fines and forfeits	867,340	-	-	-	867,340
Investment income	660,548	-	-	-	660,548
Miscellaneous	2,109,589	-	51,879	223,924	2,385,392
Total revenues	48,958,298	9,336,238	51,879	2,918,539	61,264,954
Expenditures					
Current					
General government	7,544,301	325,965	-	639	7,870,905
Community and economic development	830,070	3,163,577	-	218,082	4,211,729
Public safety	30,714,029	336,456	-	286,348	31,336,833
Public works	6,507,164	125,386	91,950	728,738	7,453,238
Environment	-	-	-	243,713	243,713
Capital outlay	-	-	-	1,113,208	1,113,208
Debt service					
Principal retirements	1,529,661	480,000	9,078,337	8,628	11,096,626
Interest and fiscal charges	32,345	151,078	38,827	-	222,250
Total expenditures	47,157,570	4,582,462	9,209,114	2,599,356	63,548,502
Excess of revenues over (under) expenditures	1,800,728	4,753,776	(9,157,235)	319,183	(2,283,548)
Other financing sources (uses)					
Sale of general capital assets	174,935	-	-	38,000	212,935
Debt issuance	1,000,000	-	-	-	1,000,000
Capital lease	-	-	-	3,254,033	3,254,033
Transfers in	7,500,805	-	9,354,157	781,957	17,636,919
Transfers out	(10,125,011)	(4,753,776)	(272,950)	(1,012,944)	(16,164,681)
Total other financing sources (uses)	(1,449,271)	(4,753,776)	9,081,207	3,061,046	5,939,206
Net change in fund balances	351,457	-	(76,028)	3,380,229	3,655,658
Fund balances - beginning of year	26,761,992	-	108,426	2,867,253	29,737,671
Fund balances - end of year	\$ 27,113,449	\$ -	\$ 32,398	\$ 6,247,482	\$ 33,393,329

The accompanying notes are an integral
part of these financial statements.

CITY OF HARRISBURG, PENNSYLVANIA**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

Amounts reported for governmental activities in the statement of activities
are different because:

Net change in fund balance - total governmental funds	\$ 3,655,658
---	--------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	\$ 2,459,377	
Depreciation expense	<u>(5,227,452)</u>	(2,768,075)

When recognizing the sale of capital assets, the governmental funds report the total proceeds of the sale. Only the gain or loss on the sale is reported in the governmental activities.	(625,605)
--	-----------

The net pension asset (liability) is recorded as an asset (liability) in the government-wide financial statements, but not in the fund financial statements. This amount represents the change in the net pension asset (liability), net of deferred inflows and outflows of resources.	(2,986,727)
---	-------------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,036,193
--	-----------

Governmental funds report guarantee fees as revenues when received. However, in the statement of activities, the fees are amortized over the guarantee period and reported as investment income.

Amortization	117,429
--------------	---------

The issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Issuance	(4,254,033)	
Principal repayments	9,596,626	
Settlement with suburban municipalities	<u>1,500,000</u>	6,842,593

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Workers' compensation	173,828	
Compensated absences	(104,525)	
Claims and judgments	203,719	
Other post-employment benefits	(3,272,971)	
Accrued interest	(656,114)	
Amortization of liability under guarantee	(994,954)	
Amortization of bond discounts	<u>(2,936,116)</u>	(7,587,133)

Change in net position of governmental activities	<u><u>\$ (1,315,667)</u></u>
---	------------------------------

The accompanying notes are an integral
part of these financial statements.

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2015

	Harrisburg Senators Fund	Incinerator Fund	Sanitation Fund	Total Proprietary Funds
ASSETS				
Current assets				
Cash and cash equivalents	\$ -	\$ 6,295,504	\$ 1,003,151	\$ 7,298,655
Investments, at fair value	-	-	278,457	278,457
Receivables, net of allowance for uncollectible accounts				
Accounts	-	2,654,969	759,004	3,413,973
Other	-	976,820	335,092	1,311,912
Due from other funds	78,386	736,325	-	814,711
Prepaid expenses and other assets	56,174	-	-	56,174
Total current assets	<u>134,560</u>	<u>10,663,618</u>	<u>2,375,704</u>	<u>13,173,882</u>
Long-term assets				
Restricted assets				
Cash and cash equivalents	2,159	41,331	500	43,990
Investments, at fair value	658,241	-	-	658,241
Security deposit	-	-	1,350,000	1,350,000
Net pension asset	-	-	1,625,002	1,625,002
Capital assets, less accumulated depreciation and amortization	31,836,103	192,500	67,866	32,096,469
Total long-term assets	<u>32,496,503</u>	<u>233,831</u>	<u>3,043,368</u>	<u>35,773,702</u>
Total assets	<u>32,631,063</u>	<u>10,897,449</u>	<u>5,419,072</u>	<u>48,947,584</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources for pension	-	-	629,344	629,344
LIABILITIES				
Current liabilities				
Accounts payable	-	468,891	136,946	605,837
Accrued liabilities	43,826	-	38,937	82,763
Due to other funds	-	141,385	987,407	1,128,792
Current portion of workers' compensation	-	-	18,857	18,857
Current portion of lease rental bonds payable	310,000	-	-	310,000
Current portion of capitalized lease obligations	-	-	6,405	6,405
Current portion of vested compensated absences	-	-	10,064	10,064
Total current liabilities	<u>353,826</u>	<u>610,276</u>	<u>1,198,616</u>	<u>2,162,718</u>
Long-term liabilities				
Workers' compensation	-	-	73,130	73,130
Lease rental bonds payable	6,419,604	-	-	6,419,604
Capitalized lease obligations	-	-	4,804	4,804
Vested compensated absences	-	-	128,804	128,804
Other post-employment benefits	-	-	1,504,652	1,504,652
Total long-term liabilities	<u>6,419,604</u>	<u>-</u>	<u>1,711,390</u>	<u>8,130,994</u>
Total liabilities	<u>6,773,430</u>	<u>610,276</u>	<u>2,910,006</u>	<u>10,293,712</u>
NET POSITION				
Net investment in capital assets	25,187,044	192,500	56,657	25,436,201
Restricted				
Debt service	658,241	-	-	658,241
Net pension asset	-	-	1,625,002	1,625,002
Unrestricted	12,348	10,094,673	1,456,751	11,563,772
Total net position	<u>\$ 25,857,633</u>	<u>\$ 10,287,173</u>	<u>\$ 3,138,410</u>	<u>\$ 39,283,216</u>

The accompanying notes are an integral
part of these financial statements.

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015

	Harrisburg Senators Fund	Incinerator Fund	Sanitation Fund	Total Proprietary Funds
Operating revenues				
Charges for service	\$ 379,738	\$ 8,772,452	\$ 3,883,460	\$ 13,035,650
Operating expenses				
Salaries and wages	-	-	878,708	878,708
Fringe benefits	-	-	708,675	708,675
Communications	-	-	19,291	19,291
Professional fees	-	-	15,703	15,703
Utilities	-	-	7,097	7,097
Insurance	-	-	42,987	42,987
Maintenance and repairs	-	-	221,538	221,538
Contracted services	-	6,843,588	514,615	7,358,203
Supplies	-	-	198,616	198,616
Depreciation and amortization	928,600	17,500	4,963	951,063
Total operating expenses	928,600	6,861,088	2,612,193	10,401,881
Operating income (loss)	(548,862)	1,911,364	1,271,267	2,633,769
Nonoperating revenues (expenses)				
State subsidy	-	-	46,609	46,609
Investment income	41	-	1,997	2,038
Interest expense	(359,582)	-	-	(359,582)
Amortization of bond issue costs	(6,713)	-	-	(6,713)
Total nonoperating revenues (expenses)	(366,254)	-	48,606	(317,648)
Income (loss) before transfers	(915,116)	1,911,364	1,319,873	2,316,121
Transfers in	272,950	-	-	272,950
Transfers out	-	-	(1,745,188)	(1,745,188)
Change in net position	(642,166)	1,911,364	(425,315)	843,883
Net position - beginning of year - restated	26,499,799	8,375,809	3,563,725	38,439,333
Net position - end of year	\$ 25,857,633	\$ 10,287,173	\$ 3,138,410	\$ 39,283,216

The accompanying notes are an integral
part of these financial statements.

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015

	Harrisburg Senators Fund	Incinerator Fund	Sanitation Fund	Total Proprietary Funds
Cash flows from operating activities				
Received from user charges	\$ 379,738	\$ 8,799,161	\$ 3,448,558	\$ 12,627,457
Payments to employees for services	-	-	(896,220)	(896,220)
Payments for fringe benefits	-	-	(400,449)	(400,449)
Payments to suppliers for goods and services	-	(7,248,217)	(962,915)	(8,211,132)
Net cash provided by operating activities	379,738	1,550,944	1,188,974	3,119,656
Cash flows from noncapital financing activities				
State subsidy	-	-	46,609	46,609
Transfers in	272,950	-	-	272,950
Transfers out	-	-	(1,745,188)	(1,745,188)
Net cash provided by (used in) noncapital financing activities	272,950	-	(1,698,579)	(1,425,629)
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	-	(210,000)	(37,900)	(247,900)
Interest paid	(357,731)	-	-	(357,731)
Lease, bond and note payments	(295,000)	-	(12,079)	(307,079)
Net cash used in capital and related financing activities	(652,731)	(210,000)	(49,979)	(912,710)
Cash flows from investing activities				
Sales of investments	-	-	810	810
Investment income	43	-	1,997	2,040
Net cash provided by investing activities	43	-	2,807	2,850
Net increase (decrease) in cash and cash equivalents	-	1,340,944	(556,777)	784,167
Cash and cash equivalents (including restricted cash) - beginning of year	2,159	4,995,891	1,560,428	6,558,478
Cash and cash equivalents (including restricted assets) - end of year	\$ 2,159	\$ 6,336,835	\$ 1,003,651	\$ 7,342,645

(continued)

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUNDS (CONT'D)
YEAR ENDED DECEMBER 31, 2015

	Harrisburg Senators Fund	Incinerator Fund	Sanitation Fund	Total Proprietary Funds
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (548,862)	\$ 1,911,364	\$ 1,271,267	\$ 2,633,769
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	928,600	17,500	4,963	951,063
Provision for uncollectible accounts	-	1,344,552	234,720	1,579,272
Changes in assets and liabilities				
Accounts receivable	-	(1,275,521)	(525,078)	(1,800,599)
Other receivables	-	148,226	(335,092)	(186,866)
Deferred outflows of resources for pension	-	-	(627,709)	(627,709)
Due from/to other funds	-	(190,548)	190,548	-
Net pension asset	-	-	842,036	842,036
Other assets	-	-	4,889	4,889
Vested compensated absences	-	-	(17,512)	(17,512)
Other post-employment benefits	-	-	93,899	93,899
Workers' compensation	-	-	(32,651)	(32,651)
Accounts payable and other accrued costs	-	(404,629)	84,694	(319,935)
Net cash provided by operating activities	<u>\$ 379,738</u>	<u>\$ 1,550,944</u>	<u>\$ 1,188,974</u>	<u>\$ 3,119,656</u>
Noncash investing, capital, and financing activities				
Amortization of bond discount	<u>\$ 6,713</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,713</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2015

	Police Pension Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ -	\$ 1,415,237
Receivables		
Interest and dividends	42,374	-
Total receivables	42,374	-
Investments, at fair value		
Money market funds	1,166,026	-
Certificates of deposit	1,266,966	-
Fixed income funds	22,072,247	-
U.S. Government obligations	956,089	-
U.S. Government agency obligations	997,361	-
Corporate bonds	2,296,041	-
Municipal bonds	56,074	-
Equity funds	44,727,140	-
Total investments	73,537,944	-
Total assets	73,580,318	1,415,237
LIABILITIES		
Due to other governments	-	482,666
Due to City's General Fund	-	201,759
Escrow liabilities	-	730,812
Total liabilities	-	\$ 1,415,237
NET POSITION		
Restricted for police pension benefits	\$ 73,580,318	

The accompanying notes are an integral
part of these financial statements.

CITY OF HARRISBURG, PENNSYLVANIA**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - POLICE PENSION TRUST FUND**
YEAR ENDED DECEMBER 31, 2015

Additions	
Contributions	
Plan member	\$ 462,539
Employer	<u>2,972,450</u>
Total contributions	<u>3,434,989</u>
Investment income	
Interest and dividend income	2,053,267
Net depreciation in fair value of investments	<u>(1,261,519)</u>
Total investment income	791,748
Less investment expense	<u>(204,804)</u>
Net investment income	<u>586,944</u>
Total additions	<u>4,021,933</u>
Deductions	
Pension benefits	5,630,072
Administrative expenses	<u>48,790</u>
Total deductions	<u>5,678,862</u>
Change in net position	(1,656,929)
Net position - beginning of year	<u>75,237,247</u>
Net position - end of year	<u><u>\$ 73,580,318</u></u>

The accompanying notes are an integral
part of the these financial statements.

CITY OF HARRISBURG, PENNSYLVANIA
DESCRIPTION OF COMPONENT UNITS
YEAR ENDED DECEMBER 31, 2015

Harrisburg Parking Authority

On December 23, 2013, the Harrisburg Parking Authority Component Unit entered into an Asset Transfer Agreement for the City of Harrisburg Parking System for a majority of its parking facilities, meters, and lots. Subsequent to December 23, 2013, the Harrisburg Parking Authority maintains an operating interest in the City Island Garage and certain parking lots. Although the Harrisburg Parking Authority maintains an operating interest in the City Island Garage as of December 31, 2015, the Asset Transfer Agreement stipulates that the City Island Garage could also be transferred once negotiations with certain interested parties are complete.

Harrisburg Downtown Improvement District, Inc.

The Harrisburg Downtown Improvement District, Inc., a Pennsylvania non-profit corporation, was formed on April 22, 2004, under provisions of the Neighborhood Improvement District Act, as of December 20, 2000, to provide neighborhood improvement district management association services, overseeing a neighborhood improvement district located in the Downtown Business District of Harrisburg, Pennsylvania. Such services shall include services which improve the ability of commercial establishments to service its consumers, transportation, public relations programs, advertising, district maintenance, security services, and services which improve the ability of property owners to enjoy a safer and more attractive neighborhood.

Redevelopment Authority of the City of Harrisburg

The Redevelopment Authority of the City of Harrisburg Component Unit is incorporated under the provisions of the Commonwealth of Pennsylvania Urban Development Act Number 385 of May 24, 1945, as amended, for the purpose of providing redevelopment and other related activities within the City.

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF NET POSITION - COMPONENT UNITS
DECEMBER 31, 2015

	Harrisburg Parking Authority	Harrisburg Downtown Improvement District	Redevelopment Authority	Total Component Units
ASSETS				
Current assets				
Cash and cash equivalents	\$ 846,044	\$ 508,767	\$ 947,130	\$ 2,301,941
Receivables, net of allowance for uncollectible accounts				
Accounts	12,737	3,740	221,594	238,071
Rent	678,542	-	-	678,542
Loans	-	-	23,406	23,406
Prepaid expenses and other assets	14,449	16,606	-	31,055
Total current assets	1,551,772	529,113	1,192,130	3,273,015
Restricted assets				
Investments	-	-	3,985,103	3,985,103
Total restricted assets	-	-	3,985,103	3,985,103
Right to building	-	-	20,369,411	20,369,411
Loans receivable	-	-	219,893	219,893
Capital assets, not being depreciated	-	-	30,000	30,000
Capital assets, less accumulated depreciation	4,499,840	2,337	7,530,186	12,032,363
Project costs, less accumulated amortization	-	28,833	-	28,833
Total assets	6,051,612	560,283	33,326,723	39,938,618

(continued)

	Harrisburg Parking Authority	Harrisburg Downtown Improvement District	Redevelopment Authority	Total Component Units
LIABILITIES				
Current liabilities (payable from current assets)				
Accounts payable and accrued liabilities	99,589	28,358	99,316	227,263
Due to primary government	678,542	-	-	678,542
Accrued interest payable	-	-	77,525	77,525
Total current liabilities (payable from current assets)	778,131	28,358	176,841	983,330
Current liabilities (payable from restricted assets)				
Current portion of revenue bonds payable	-	-	3,680,000	3,680,000
Current portion of revenue notes payable	-	-	340,523	340,523
Total current liabilities (payable from restricted assets)	-	-	4,020,523	4,020,523
Noncurrent liabilities				
Revenue bonds payable, net of discount	-	-	58,045,245	58,045,245
Revenue notes payable, net of discount	-	-	709,279	709,279
Due to other governments	-	-	170,832	170,832
Total liabilities	778,131	28,358	63,122,720	63,929,209
NET POSITION				
Net position				
Net investment in capital assets	4,499,840	-	6,511,231	11,011,071
Restricted				
Revolving loan program	-	-	222,729	222,729
Debt service	-	-	3,985,103	3,985,103
Insurer agreement	347,978	-	-	347,978
Blight remediation	-	-	249,666	249,666
Unrestricted	425,663	531,925	(40,764,726)	(39,807,138)
Total net position	\$ 5,273,481	\$ 531,925	\$ (29,795,997)	\$ (23,990,591)

The accompanying notes are an integral part of these financial statements.

CITY OF HARRISBURG
STATEMENT OF ACTIVITIES - COMPONENT UNITS
YEAR ENDED DECEMBER 31, 2015

		Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
	Expenses			
Harrisburg Parking Authority	\$ 1,999,717	\$ 208,304	\$ -	\$ -
Harrisburg Downtown Improvement District	743,657	635,667	105,895	-
Redevelopment Authority	5,084,009	1,138,863	250,845	33,333
Total component units	<u>\$ 7,827,383</u>	<u>\$ 1,982,834</u>	<u>\$ 356,740</u>	<u>\$ 33,333</u>

General revenues
Miscellaneous income
Unrestricted investment earnings
Special item

Total general revenues and special item

Change in net position

Net position - January 1, 2015 - restated

Net position - December 31, 2015

Net (Expense) Revenue and Changes in Net Position			
Harrisburg Parking Authority	Harrisburg Downtown Improvement District	Redevelopment Authority	Total
\$ (1,791,413)	\$ -	\$ -	\$ (1,791,413)
-	(2,095)	-	(2,095)
-	-	(3,660,968)	(3,660,968)
(1,791,413)	(2,095)	(3,660,968)	(5,454,476)
-	-	43,941	43,941
1,133,000	2,159	108,595	1,243,754
-	-	610,000	610,000
1,133,000	2,159	762,536	1,897,695
(658,413)	64	(2,898,432)	(3,556,781)
5,931,894	531,861	(26,897,565)	(20,433,810)
<u>\$ 5,273,481</u>	<u>\$ 531,925</u>	<u>\$ (29,795,997)</u>	<u>\$ (23,990,591)</u>

The accompanying notes are an integral
part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Harrisburg, Pennsylvania (City) was founded by John Harris II in 1785, established as a borough in 1791 and incorporated as a City on March 19, 1860. The City operates as a Mayor-Council form of government and provides all municipal services to its residents.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant policies:

A. *Reporting Entity*

The City used guidance contained in governmental accounting standards to evaluate the possible inclusion of related entities (Authorities, Boards, Councils, etc.) within its reporting entity. The criteria used by the City for inclusion are financial accountability and the nature and significance of the relationships. In determining financial accountability in a given case, the City reviews the applicability of the following criteria. The City is financially accountable for:

- Organizations that make up the legal City entity.
- Legally separate organizations if City officials appoint a voting majority of the organization's governing body and the City is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City, as defined below:
 - **Impose its Will** – If the City can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.
 - **Financial Benefit or Burden** – Exists if the City (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.
- Organizations that are fiscally dependent on the City. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the City.

Based on the foregoing criteria, the reporting entity has been defined to include all the entities for which the City is financially accountable or for which there is another significant relationship. Specific information on the nature of the various potential component units and a description of how the aforementioned criteria have been considered in determining whether or not to include or exclude such units in the City's financial statements are provided in the following paragraphs. Separately published audit reports of the component units and joint venture are available for public inspection in the City's Finance Office.

Blended Component Units

Some component units, despite being legally separate from the primary government (City), are so intertwined with the primary government that they are, in substance, the same as the primary government and are reported as part of the primary government. The component unit reported in this way is the City of Harrisburg Leasing Authority.

City of Harrisburg Leasing Authority

The City of Harrisburg Leasing Authority was formed pursuant to the Municipality Authorities Act in 1986 for the purpose of acquiring and leasing facilities and equipment to the City. The five-member Board of Directors is appointed by the Mayor. The City of Harrisburg Leasing Authority's only financial transaction is the financing of City projects. There was no activity during the year ended December 31, 2015.

Discretely Presented Component Units

Component units which are not blended as part of the primary government are discretely presented, which entails reporting component unit financial data in a column separate from the financial data of the primary government. The component units presented in this way are the following:

- Harrisburg Parking Authority
- Harrisburg Downtown Improvement District, Inc.
- Redevelopment Authority of the City of Harrisburg

Harrisburg Parking Authority

The Harrisburg Parking Authority (Authority) was incorporated in 1972 under the Pennsylvania Parking Authority Law of 1947. The Authority is an agency of the Commonwealth of Pennsylvania, which owns and operates parking facilities in the City. The five-member Board of Directors is appointed by the Mayor and members can be removed from the Board at will.

On December 23, 2013, the Authority entered into an Asset Transfer Agreement for the City of Harrisburg Parking System (Agreement) dated December 1, 2013 with Pennsylvania Economic Development Financing Authority (PEDFA). Under the Agreement, the Authority agreed to lease, for a period of approximately 40 years, certain parking facilities, meters, and lots for an upfront acquisition price of approximately \$267 million, plus four notes receivable, with a present value of approximately \$12 million. At closing on December 23, 2013, at request of the City, the Authority assigned the notes receivable to the City, Dauphin County (County), and the bond insurer. Any surplus revenues (as defined in the Agreement), are to be paid on the notes receivable, with 75% going to the bond insurer and the County and 25% going to the City, until such time as the bond insurer and the County are made whole and then all amounts going to the City.

Because the lease qualified as a capital lease, all associated capital assets were removed from the Authority's financial statements as of the closing date. At the end of 40 years, all associated capital assets are to be returned to the Authority (or the City if the Authority is not in existence) along with an capital reserve monies (funded by PEDFA through an extensive formula in the PEDFA indenture) for deferred maintenance. In accordance with an agreement with the bond insurer, any amounts received after the transfer of assets by the Authority in respect of its ownership of the parking assets transferred, in excess of reserves agreed upon by the Authority and the bond insurer, are to be promptly paid to the bond insurer. Within 30 days following June 30, 2015, any surplus amount held and received by HPA after closing of the transfer of assets is to be promptly paid to the bond insurer.

Subsequent to the asset transfer date of December 23, 2013, the Authority maintained an operating interest in the City Island Garage and certain parking lots. Although the Authority maintains an operating interest in the City Island Garage as of December 31, 2015, the Agreement stipulates that the City Island Garage could also be transferred once negotiations with certain interested parties are complete.

Harrisburg Downtown Improvement District, Inc.

The Harrisburg Downtown Improvement District, Inc. (Corporation) was formed on April 22, 2004 under the provisions of the Neighborhood Improvement District Act, as of December 20, 2000, to provide neighborhood improvement district management services, overseeing a neighborhood improvement district located in the downtown business district of the City. On September 14, 2004, City Council adopted an ordinance to establish a Neighborhood Improvement District (District) to replace the Harrisburg Downtown Improvement District Authority by providing the same business improvements and administrative services to a larger downtown business district. Effective September 30, 2004, the Harrisburg Downtown Improvement District Authority was terminated and all assets, liabilities, and contractual rights were assumed by the Corporation.

On September 14, 2010, the Corporation was re-authorized by City Council to administer services to the District for a five-year term beginning January 1, 2011 and ending December 31, 2015.

On December 15, 2015, the Corporation was re-authorized by City Council for a two-year term beginning January 1, 2016 to administer services to the District. The authorization to administer the District shall automatically terminate on December 21, 2017, unless the governing body of the City legislatively authorizes its continuation.

As a result of the inclusion of the Corporation as a discretely presented component unit in the City's December 31, 2015 financial statements, net position has been restated.

Redevelopment Authority of the City of Harrisburg

The Redevelopment Authority of the City of Harrisburg (Redevelopment Authority) was established in 1949 pursuant to the Urban Redevelopment Act of 1945 (Public Law – 991). The Redevelopment Authority is administered by a five-member Board of Directors, all of whom are appointed by the Mayor. The Redevelopment Authority provides a broad range of urban renewal and maintenance programs within the City. The Redevelopment Authority also coordinates efforts to improve the economic vitality, the housing stock, and overall living conditions within the City. The City guarantees some debt of the Redevelopment Authority projects.

The Harrisburg Land Bank (Land Bank) is a blended component unit presented in the Redevelopment Authority's financial statements. The Land Bank is governed by seven board members, five of which serve as members of the Redevelopment Authority and two elected by the Mayor. The Land Bank was created under the Pennsylvania Land Bank Act and its purpose is to deter blight and return vacant property to productive status, thereby enabling the transformation of vacant, blighted, abandoned, and tax-delinquent spaces into vibrant City places. During the year ended December 31, 2015, the City contributed \$250,000 to the Land Bank.

Potential Component Units Excluded

Capital Region Water

Capital Region Water (CRW) was incorporated in 1957 under the provisions of the Municipality Authorities Act. CRW is administered by a five-member Board of Directors, all of whom are appointed by the Mayor and confirmed by City Council. The purpose of CRW is, among other things, to engage in public works projects relating to the ownership and operation of the water system and wastewater treatment and conveyance systems. CRW also maintains responsibility for winding down certain administrative, contractual, and minor operating activities of the previously owned resource recovery facility. The City has no financial accountability over CRW's operations.

CRW operates and reports on a calendar year.

City of Harrisburg Housing Authority

The City of Harrisburg Housing Authority (Housing Authority) was established in 1937 pursuant to the Housing Authorities Law to promote the availability of safe and sanitary dwelling accommodations at affordable rents to families of low income. The Housing Authority is administered by a five-member Board of Directors, all of whom are appointed by the Mayor.

The Housing Authority operates low-rent subsidized housing projects established within the City. The Housing Authority manages the acquisition of federal and state funds for the construction of and/or improvements to low income properties and reviews programs with the landlords to ensure compliance with various rules and regulations. The City has no financial accountability over the Housing Authority's operations.

The Housing Authority operates and reports on a calendar year.

Harristown Development Corporation

The Harristown Development Corporation (HDC) was incorporated under the Nonprofit Corporation Law of Pennsylvania in 1974, and owns and operates several facilities within the City. HDC is governed by a 17-member Board of Directors (Board) selected by a nominating committee of the Board. City officials do not serve on the Board or nominating committee. The City does guarantee the debt of an HDC project, but there is no indication of financial accountability.

The HDC operates and reports on a calendar year.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

Joint Venture

The City is a participant with other municipalities in a joint venture that provides services to the constituents of all the participants. The City has no financial or equity interest in the joint venture. The following is a summary of the significant facts and circumstances for the joint venture for the year ended June 30, 2015:

Name of Organization	Cumberland-Dauphin-Harrisburg Transit Authority
Services Provided	Bus Service
City Board representation	Two of seven members
Fiscal Year	June 30
Current Assets	\$ 3,065,977
Capital Assets, Net	\$ 22,253,088
Total Assets and Deferred Outflows of Resources	\$ 26,055,547
Net Position	\$ 18,467,012
Operating Revenue	\$ 6,890,622
Operating Loss	\$ (16,651,110)
Change in Net Position	\$ (2,231,018)
City Contribution to Operations	\$ 225,656

Related Organizations

The City Council and Mayor are also responsible for appointing the members of several boards, but the City's accountability for these organizations does not extend beyond making appointments. These boards include:

Broad Street Market Authority	Harrisburg Human Relations Commission
Planning Commission	License and Tax Appeals
Private Industry Council	Electrical Code Advisory and Licensing
Tri-County Regional Planning Commission	Building Code Board of Appeals
Emergency Planning Committee	Housing Code Board of Appeals
Board of Health	Civil Service Board
Historical and Architectural Review Board	Zoning Hearing Board
Plumbing Board	Revolving Loan Review Committee
Susquehanna Area Regional Airport Authority	

The amounts the City appropriated to these organizations during the year ended December 31, 2015 were immaterial to the basic financial statements.

The City owns the National Civil War Museum and the related artifacts (collectively, the facilities). In April 2001, the City entered into a lease, license, and operating agreement with the National Civil War Museum to lease the facilities for \$1 per year, to operate and manage the museum, and to license elements of the museum. The term of the agreement continues through January 1, 2031. After the first five years, the City can notify the National Civil War Museum that it would like to renegotiate the rent payment based on the organization's ability to pay. In October 2009, the agreement was amended to extend the term for lease, license, and operations to January 31, 2039. As of December 31, 2015, there has been no further negotiation.

B. *Government-Wide and Fund Financial Statements*

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges to external parties for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and pension trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Benefits and refunds of the Combined Police Pension Plan are recognized when due and payable in accordance with the terms of the plan.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Real estate, earned income, local services, mercantile, franchise, and hotel taxes, intergovernmental revenue, departmental earnings, and investment income are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other governmental fund revenues are recorded as cash is received because they are generally not measurable until actually received. In determining when to recognize intergovernmental revenues (grants and entitlements), the legal and contractual requirements of the individual programs are used as guidance.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on general long-term obligations are recognized when due. Prepaid items and inventory purchases are reported as expenditures in the year when the items are purchased. Expenditures for claims, judgments, compensated absences, contingent liabilities, and employer pension and other post-employment benefit contributions are reported to the extent that they mature each period.

The City reports unavailable revenue on its governmental fund balance sheet. Unavailable revenues arise when a potential revenue does not meet the “measurable” and “available” criteria for recognition in the current period. Unearned revenues arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for unavailable or unearned revenue is removed from the governmental fund balance sheet and revenue is recognized.

The City reports the following major governmental funds:

General Fund – Accounts for all financial resources except those accounted for in another fund. The General Fund is the general operating fund of the City.

Grant Programs Fund – Accounts for the revenues and expenditures of federal, state, and other grant programs including the Community Development Block Grant Entitlement Program.

Debt Service Fund – Accounts for the accumulation of resources, which are principally transfers from other funds, for the payment of general long-term obligation principal, interest, and related costs.

The City reports the following major proprietary funds:

Harrisburg Senators Fund - Accounts for the revenues and expenses associated with the payment of debt on the financing of a new stadium of the Harrisburg Senators, a minor league franchise formerly owned by the City.

Incinerator Fund - Accounts for the collection and remittance of incinerator/resource recovery disposal fees billed by the City and remitted to Lancaster County Solid Waste Management Authority, for its provision of solid waste incineration services to the residents and commercial and industrial establishments of the City.

Sanitation Fund – Accounts for the revenue and expenses associated with the collection of refuse and recyclable items and transportation of both to the solid waste facility.

In addition, the City reports the following fund types:

Pension Trust Fund – Accounts for the accumulation of resources for pension benefit payments and the withdrawals of qualified distributions of police personnel.

Agency Funds – Account for situations where the City’s role is purely custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations and do not have a measurement focus. The City’s agency funds include the school tax collection fund, which is used

to account for the collection and payment to the school district of property taxes billed and collected on its behalf, and the payroll and other escrow liabilities fund, which is used to account for the collection and payment of miscellaneous escrow liabilities.

Component units are accounted for as follows:

The discretely presented component units are accounted for as enterprise funds. As such, they account for the activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. Services from such activities are provided to outside parties.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the enterprise funds and other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City and its component units practice to use restricted resources first, then unrestricted resources as they are needed.

D. *Cash and Cash Equivalents*

For the purpose of the statement of cash flows, highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

E. *Investments*

With the exception of investment contracts, which are at contract value, the City and its component units carry their investments at fair value. The fair value of the investments is based upon values provided by external investment managers and quoted market price.

F. *Allowance for Uncollectible Accounts*

The allowance for uncollectible accounts is based upon historical ratios established according to experience and other factors which in the judgment of City officials deserve recognition in estimating possible losses. Management believes that they have adequately provided for future probable losses.

G. *Loans Receivable*

The City has loans receivable issued from the City's Department of Building and Housing Development (DBHD) in the amount of \$926,124 and the Mayor's Office of Equal Economic

Opportunity (MOEEO) in the amount of \$2,037,321, net of allowances for uncollectible accounts of \$717,640 and \$1,470,032, respectively. The balance of loans receivable that is reported in the General Fund, net of allowance for uncollectible accounts, is presented as restricted fund balance. The balance of the loans receivable that is reported in the Grant Programs Fund, net of allowance for uncollectible accounts, is presented as unearned revenue. Write-offs are determined based on events of loan default, bankruptcy, or negotiated settlement with the City.

The Redevelopment Authority's loans receivable consists of loans made to various entities for redevelopment projects within the City. The loans vary in term and require full payment of principal and interest at the end of the loan term. As of December 31 2015, there was \$243,299 of loans receivable.

In June 2003, the Redevelopment Authority received two Up-Front Grants in the amount of \$10.6 million from the United States Department of Housing and Urban Development for the Governor's Square (formerly McClay Street) redevelopment project within the City. The grant funds were loaned to developers for use in connection with a low-income housing project. The loans vary in term and require full payment of principal and interest at the end of the loan term. By their nature, the likelihood that these loans will be collected is remote and, as a result, the loans are completely offset with an allowance for uncollectible accounts at December 31, 2015.

H. *Rent Receivable*

Management has assessed the rent receivables referenced in Note 4 for collectability and deemed the amounts to be fully collectable. Rent receipts are applied to the oldest receivables first.

I. *Interfund Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due to/from other funds" on the balance sheet or statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

J. *Security Deposit*

At December 31, 2015, the Sanitation Fund has presented a security deposit in the amount of \$1.35 million. This amount represents the deposit amount for the City's obligations to the owner of the resource recovery facility under the Municipal Waste Disposal Agreement. The amount has been deposited pursuant to the Second Addendum to Assignment, Amendment, and Restatement of the Disposal Agreement.

K. *Right to Building*

In 1998, the Redevelopment Authority purchased the right, title, and interest in and to certain portions of the Strawberry Square Site located in the City. The Redevelopment Authority is not entitled to any ownership of the buildings until 2016. The future right to the building is valued on

the statement of net position at amortized cost. No amortization was required to be recorded through December 31, 2015.

L. Capital Assets

Primary Government

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, dams, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if historical cost is not available. Assets acquired prior to 1982 have been valued by applying an inflation index to current replacement cost to determine estimated historical costs. The cost of such assets amounted to \$2,447,811 at December 31, 2015. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend lives are not capitalized.

Artifacts, totaling \$18,649,000, have been recorded at cost in the governmental activities column of the government-wide financial statements and are not being depreciated.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	5 to 100 years
Equipment and furniture	5 to 20 years
Infrastructure	50 to 150 years

Component Units

Harrisburg Parking Authority

The Authority's capital assets in service and construction in progress are stated on the basis of cost. Capital assets are defined by the Authority as assets with an initial, individual cost of \$10,000 for land, buildings, and related improvements, or \$1,000 for furniture and equipment purposes, and an estimated useful life in excess of three years. Maintenance and repairs, which do not significantly extend the value or life of capital assets, are expensed as incurred.

The Authority's depreciation expense is computed using the straight-line method over the estimated useful asset life of thirty years. Interest is capitalized on assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest costs incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Harrisburg Downtown Improvement District, Inc.

Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the useful lives of the assets. Management has set a policy using a dollar amount to capitalize expenditures of \$5,000. Leasehold improvements pertain to the design and construction of certain improvements within the Corporation's leased space, which are stated at cost and depreciated over the lease term using the straight-line method of depreciation.

Redevelopment Authority of the City of Harrisburg

All capital assets are capitalized at historical cost at the acquisition date. Donated capital assets are reported at their fair value as of the date received. The Redevelopment Authority maintains a capitalization threshold of \$5,000 for vehicles, equipment, and furniture and fixtures. Leasehold improvements, land improvements, buildings, and building improvements have a capitalization threshold of \$25,000. All capital assets are depreciated, except for land, land improvements (excavation, fill, grading, landscaping), construction in progress, easements, and rights of way.

Depreciation is computed using the straight-line method over the following useful lives:

Buildings and building improvements	40 years
Land improvements	20 years
Furniture and fixtures	10 years
Leasehold improvements	7-10 years
Vehicles	7-10 years
Equipment	5 years

M. *Vested Compensated Absences*

Primary Government

Vested compensated absences represent vested portions of accumulated unpaid vacation, sick pay, and other employee benefit amounts. It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation, sick pay, and other employee benefit amounts, which will be paid to employees upon separation from City service. All vested compensated absences are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Component Unit

Redevelopment Authority of the City of Harrisburg

The Redevelopment Authority's employees are granted vacation benefits in varying amounts depending on the number of years of service. Employees may accumulate up to 37.5 hours of vacation leave, which may be carried over to subsequent years. Sick leave benefits accrue up to a maximum of 675 hours, but can only be used as sick time and not taken in pay. Sick leave accumulated in excess of 675 hours may be converted, at the discretion of the Executive Director, to vacation time. The conversion of sick leave to vacation leave will occur on the ratio of three

(3) hours excess sick leave to one (1) hour vacation leave. The vacation leave accrued in this manner may be carried over to the new calendar year in addition to the maximum vacation leave carryover otherwise permitted. The liability related to compensated absences is reported in the statement of net position.

N. *Long-term Obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net position. Bond premiums and discounts are amortized over the life of the related obligation using the effective interest method. Debt is reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

O. *Deferred Inflows and Outflows of Resources for Pensions*

In conjunction with pension accounting requirements, the effect of the differences in the City's expected and actual experience, changes of assumptions, the City's contributions subsequent to the measurement date, and the difference between projected and actual earnings on pension plan investments are recorded as deferred inflows or outflows of resources related to pension on the government-wide and proprietary fund financial statements. These amounts are determined based on the actuarial valuations performed for the pension plan. Note 17 presents additional information about the pension plan.

P. *Encumbrances*

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental and proprietary fund types. Encumbrances are recorded when purchase orders are issued, but are not considered expenditures until liabilities for payment are incurred. Encumbrances outstanding at year-end for unfilled obligations of the current year budget are reappropriated in the succeeding year. The City reports encumbrances in its governmental funds as assigned fund balance, if the individual fund's fund balance is not presented as restricted. The General Fund had encumbrances of \$1,232,587 relating to contract services and operating materials and supplies. Encumbrance accounting is used in proprietary fund types as a tool for budgetary control, but is not reported on the statement of net position. There are no encumbrances for the proprietary funds at December 31, 2015.

Q. *Fund Equity and Net Position*

In the government-wide financial statements and the proprietary and pension trust fund types in the fund financial statements, net position is classified in the following categories:

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding

balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduces this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments, and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents the net position of the City, that is not restricted for any project or other purpose.

Sometimes the City and its component units will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which resources are considered to be applied. It is the City's and its component units' policy to consider restricted net position to have been depleted before unrestricted net position is applied.

In the fund financial statements, governmental funds report fund balance in categories based on the level of constraints placed upon the funds. The levels are as follows:

Nonspendable – This category represents funds that are not in spendable form and includes such items as prepaid expenditures.

Restricted – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties.

Assigned – This category represents intentions of the City to use funds for specific purposes.

Unassigned – This category represents all other funds not otherwise defined.

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of assigned and unassigned fund balance). In order to calculate the amounts to report as restricted, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any component of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, assigned fund balance is applied first. Unassigned fund balance is applied last.

R. Pensions

All full-time employees of the City, with the exception of police officers, are covered by an agent-multiple employer public employee retirement system, the Pennsylvania Municipal Retirement System (PMRS). Police officers are covered by the Combined Police Pension Plan, a single-employer pension plan. Contributions to the plans are made in amounts sufficient to fund current service costs and to fund prior and past service costs over a forty-year period. Member employees contribute amounts to the plans based on a percentage of salary. The City funds its pension plans on the basis of normal cost plus the amortization of prior service cost over thirty years in accordance with Act 205 - 1984 of the Pennsylvania legislature. Pension expense is based upon normal cost plus the equivalent to interest on the unfunded prior service costs. As of

January 1, 2015, the date of the most recent actuarial valuation, the actuarial accrued pension liability exceeded the actuarial value of assets in the Combined Police Pension Plan in the amount of \$13,850,341. However, the actuarial value of assets exceeded the actuarial accrued pension liability in the Non-uniformed Employees' and Firefighters' Pension Plans in the amounts of \$15,860,225 and \$8,924,323, respectively.

S. Risk Management

Primary Government

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance for all risks of loss including workers' compensation excess coverage for those risks related to injuries of employees. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The City is self-insured for workers' compensation. As a self-insurer, the City is required to fund an already established trust fund, dollar for dollar, once the City has passed a total liability threshold as established by the Commonwealth of Pennsylvania. Accordingly, the City has established a trust fund for workers' compensation claims. The City provides coverage for up to a maximum of \$1,000,000 for any covered paid or volunteer firefighter, \$800,000 for any covered paid or volunteer police officer, and \$650,000 for each non-uniformed workers' compensation claim and has purchased commercial coverage for claims in excess of coverage.

In the government-wide financial statements and proprietary fund types in the fund financial statements, the liability for outstanding claims is reported in the applicable statement of net position. A liability for these amounts is reported in governmental funds only if they have matured. The accrued cost for unpaid claims was \$3,580,745 and \$91,987 in the governmental activities and business-type activities, respectively, at December 31, 2015. These claims liabilities are discounted to present value at a discount rate of 5% and are based on the requirements of governmental accounting standards, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Change in the claims' liability amounts were as follows:

	Governmental Activities	Business-type Activities	2015	2014
Beginning - January 1	\$ 3,754,573	\$ 124,638	\$ 3,879,211	\$ 4,149,737
Current year claims and changes in estimates	500,454	11,682	512,136	404,748
Claim payments	(674,282)	(44,333)	(718,615)	(675,274)
Ending - December 31	<u>\$ 3,580,745</u>	<u>\$ 91,987</u>	<u>\$ 3,672,732</u>	<u>\$ 3,879,211</u>

Component Units

The City's discretely presented component units are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance. There were no

significant reductions in insurance coverages in 2015. Settlement amounts have not exceeded insurance coverages for the current year or three prior years.

T. *Budgets and Budgetary Accounting*

Formal budgetary integration is employed as a management control device during the year for the General Fund, Debt Service Fund, Sanitation Fund (neighborhood services), Incinerator Fund, and the following nonmajor governmental funds: State Liquid Fuels Tax Fund, Host Municipality Fees Fund, Blight Remediation Fund, Special Events Fund, Fire Protection Fund, Police Protection Fund, Parks and Recreation Fund, and WHBG-TV Fund. Annual budgets are adopted by ordinances passed by City Council. The City has established the following procedures relating to the preparation and adoption of the annual budget.

1. During August, budget preparation packages are prepared and submitted to the department heads/bureau chiefs for use in developing financial projections for their expenditures for the ensuing year.
2. The budget staff reviews the department heads'/bureau chiefs' expenditure projections and submits a first draft to the Business Administrator. Subsequent to the Business Administrator's review, the draft and recommendations are forwarded to the Mayor.
3. During September, departmental review forms are prepared and submitted to all department heads/bureau chiefs for use in developing financial projections for anticipated revenues for the ensuing year. The Budget staff conducts public hearings to review the department's budget requests.
4. Mayoral hearings are then held during October with each department to discuss their budgets as submitted and allow them to substantiate projected expenditures.
5. After hearings, the budget staff again reviews the projections and presents to the Business Administrator options as to the most viable method of financing them.
6. A second draft is then given to the Mayor with the balanced budget prepared as a result of meetings held between the Mayor, the Business Administrator, and the budget staff.
7. On the fourth Tuesday of November, the final Mayoral recommended budget is presented to City Council.
8. Council holds Budget and Finance Committee meetings to substantiate the proposed budget and arrive at any amendments to the budget.
9. By December 31, the budget, as amended by Council, is legally enacted through the passage of an ordinance.

Appropriations are authorized by ordinance at the fund level with the exception of the General Fund, which is appropriated at the functional office or department level except for the Office of Administration, which has separate budgets for administration and general expenditures. Appropriations are further defined through the establishment of more detailed line-item budgets. These specifics represent the legal levels of budgetary control.

The Business Administrator (current finance director) may authorize transfers up to \$20,000 between line-items within a department or office. However, no transfers shall be permitted into or within any personnel line-items to augment any individual wage or salary allocation previously established by City Council for any position without City Council approval, except to accommodate payments to employees as required under applicable laws or collective bargaining agreements. City Council approval is required for transfers in excess of \$20,000 along budget line-items. In the absence of budgeted financing, City Council may approve a supplemental appropriation from unappropriated fund balances; or from a new, unanticipated, and unbudgeted revenue source(s) received during the course of the budget year. Therefore, the legal level of control is the line-item level. Supplemental appropriations were enacted during 2015.

Budget to actual comparison by department for the City's General Fund is included in required supplementary information.

U. *Use of Estimates*

Management of the City and its discretely presented component units have made a number of estimates and assumptions relating to the reporting of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and the disclosure of contingent liabilities to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

V. *Special Item*

A special item is a transaction or other event, within the control of management, which is either unusual in nature or infrequent in occurrence. During the year ended December 31, 2015, the Redevelopment Authority received \$610,000 for a guaranteed investment contract termination payment.

W. *Non-Recourse Debt Issue*

The Redevelopment Authority participates in various bond issues for which it has limited liability. Acting solely in an agency capacity, the Redevelopment Authority serves as a financing conduit, bringing the ultimate borrower and the ultimate lender together to do business. Although the Redevelopment Authority is a party to the trust indentures with the trustees, the agreements are structured such that there is no recourse against the Redevelopment Authority in the case of default. As such, the corresponding debt is not reflected on the statement of net position of the Redevelopment Authority. As of December 31, 2015, non-recourse debt issues of the Redevelopment Authority totaled approximately \$16.86 million including approximately \$6.76 million on behalf of the City.

X. *Adoption of Governmental Accounting Standards Board (GASB) Statements*

GASB Statement No. 68, "Accounting and Financial Reporting for Pension Plans," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date," were adopted for the year ended December 31, 2015 by the City.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

As a result of this implementation, as well as the inclusion of the Corporation as a discretely presented component unit during the year ended December 31, 2015, the net position was restated as follows:

	Governmental Activities	Business-Type Activities	Component Units
Net position at January 1, 2015 - as originally stated	\$ (31,567,706)	\$ 35,970,660	\$ (20,965,671)
Remove net pension asset at January 1, 2015	(4,399,920)	-	-
Net pension asset (liability) at January 1, 2015	17,786,633	2,467,038	-
Contribution subsequent to the measurement date	34,471	1,635	-
Corporation net position at January 1, 2015	-	-	531,861
Net position at January 1, 2015 - restated	<u>\$ (18,146,522)</u>	<u>\$ 38,439,333</u>	<u>\$ (20,433,810)</u>
	Sanitation Fund		
Net position at January 1, 2015 - as originally stated	\$ 1,095,052		
Net pension asset at January 1, 2015	2,467,038		
Contribution subsequent to the measurement date	<u>1,635</u>		
Net position at January 1, 2015 - restated	<u>\$ 3,563,725</u>		

The net pension asset, net pension liability, and related components are described more fully in Note 17.

Y. Pending Changes in Accounting Principles

In February 2015, the GASB issued Statement No. 72, "Fair Value Measurement and Application." This Statement addresses accounting and financial reporting issues related to fair value measurements. The provisions of GASB Statement No. 72 are effective for the City's December 31, 2016 financial statements.

In June 2015, the GASB issued Statement No. 73, *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.”* This Statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by Statements No. 67 and 68). The provisions of GASB Statement No. 73 are effective for the City’s December 31, 2016 financial statements – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for the City’s December 31, 2017 financial statements.

In June 2015, the GASB issued Statement No. 74, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.”* This Statement addresses reporting by OPEB plans that administer benefits on behalf of governments. This Statement replaces Statement No. 43. The provisions of GASB Statement No. 74 are effective for the City’s December 31, 2017 financial statements.

In June 2015, the GASB issued Statement No. 75, *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.”* This Statement addressed reporting by governments that provide OPEB to their employees and for governments that finances OPEB for employees of other governments. This Statement replaces the requirements of Statement No. 45. The provisions of GASB Statement No. 75 are effective for the City’s December 31, 2018 financial statements.

In June 2015, the GASB issued Statement No. 76, *“Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.”* This Statement identifies the hierarchy of generally accepted accounting principles (GAAP), reduces this hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55. The provisions of Statement No. 76 are effective for the City’s December 31, 2016 financial statements.

In August 2015, the GASB issued Statement No. 77, *“Tax Abatement Disclosures.”* This Statement enhances disclosures of information about the nature and magnitude of tax abatements. The provisions of Statement No. 77 are effective for the City’s December 31, 2016 financial statements.

In December 2015, the GASB issued Statement No. 78, *“Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.”* This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have characteristics described above. The provisions of GASB Statement No. 78 are effective for the City’s December 31, 2016 financial statements.

In December 2015, the GASB issued Statement No. 79, "*Certain External Investment Pools and Pool Participants*." This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The provisions of GASB Statement No. 79 are effective for the City's December 31, 2016 financial statements.

In January 2016, the GASB issued Statement No. 80, "*Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*." This Statement amends the blending criteria to include a not-for-profit corporation in which the primary government is the sole corporate member. The provisions of GASB Statement No. 80 are effective for the City's December 31, 2017 financial statements.

In March 2016, the GASB issued Statement No. 81, "*Irrevocable Split-Interest Agreement*." The Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of GASB Statement No. 81 are effective for the City's December 31, 2017 financial statements.

In March 2016, the GASB issued Statement No. 82, "*Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*." This Statement addresses certain issues that have been raised with respect to previous pension standards. The provisions of GASB Statement No. 82 are effective for the City's December 31, 2017 financial statements.

The effect of implementation of these Statements has not yet been determined.

2. DEPOSITS AND INVESTMENTS

Primary Government

The deposit and investment policy of the City adheres to state statutes and prudent business practices. City deposits must be held in insured, federally regulated banks or financial institutions and must be fully collateralized in accordance with state statutes. Permissible investments include direct obligations of the U.S. Treasury and U.S. Governmental agencies; certificates of deposit issued by insured banks, bank and trust companies, and savings and loan associations; repurchase agreements not to exceed 30 days, secured by U.S. Government obligations with collateral to be delivered to a third-party custodian; shares of registered investment companies whose portfolios consist solely of government securities; general obligation bonds of any state, Pennsylvania subdivisions, or any of its agencies or instrumentalities backed by the full faith and credit of the issuing entity and having the highest rating of a recognized bond rating agency; and pooled funds of public agencies of the Commonwealth of Pennsylvania. Any investment authorized by 20 Pa. C.S. Ch. 73 (relating to fiduciary investments) is an authorized investment for any pension or retirement fund. This policy is in accordance with applicable Pennsylvania statutes. There were no deposit or investment transactions that were in violation of either state statutes or the policy of the City at December 31, 2015, nor during the year then ended.

Proceeds from debt and other funds, which are held in bank trust accounts in the City's name and administered by trustees for payment of revenue bonds and the enterprise fund portion of general long-term debt, are classified as restricted assets since their use is limited by applicable bond indentures.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

During the year ended December 31, 2015, the City received proceeds related to a capital lease of approximately \$3 million. These proceeds are maintained in a separate bank account and are classified as restricted assets since their use is limited by the provisions of the capital lease.

During the year ended December 31, 2013, the City received proceeds from the leasing of certain of the Harrisburg Parking Authority assets. Certain of the proceeds, held at December 31, 2015, are maintained in a segregated bank account restricted for the following purposes: \$3.7 million to fund a yet to be established other post-employment benefit trust fund; and \$6.2 million to fund a City growth fund.

Deposits

At December 31, 2015, the deposits of the City, including component units, were as follows:

Reconciliation to statement of net position:

Governmental activities	
Unrestricted	\$ 9,881,592
Restricted	13,990,596
Business-type activities	
Unrestricted	7,298,655
Restricted	43,990
Fiduciary funds - agency fund	1,415,237
Total primary government	<u>\$ 32,630,070</u>
Component units	
Unrestricted	<u>\$ 2,301,941</u>

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City has no policy, other than as presented above, that further limits its custodial credit deposit risk. As of December 31, 2015, the City's book balance was \$32,630,070 and the bank balance was \$35,610,007. Of the bank balance, \$1,000,000 was covered by federal depository insurance and \$34,582,999 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of Federal Depository Insurance limits. The remaining bank balance of \$27,008 was invested in an external investment pool with the Pennsylvania Local Government Investment Trust (PLGIT). PLGIT separately issues audited financial statements which are available to the public. The fair value of the City's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth of Pennsylvania is the formal external regulatory oversight for the external investment pool. At December 31, 2015, PLGIT carried an AAA rating and had an average maturity of less than one year.

Component units

Harrisburg Parking Authority

The Parking Authority Law limits the Authority to the type of deposits it may make. Allowable deposits include deposits with banks or savings associations that, to the extent not insured, are secured by a pledge of direct obligations of the U.S. Government, Commonwealth of Pennsylvania, or the City having an aggregate market value at least equal to the balance of such deposits.

Custodial Credit Risk. At December 31, 2015, the Authority's cash deposits have a book and bank balance of \$846,044 and \$862,845, respectively. Of the bank balance, \$116,102 was covered by federal depository insurance. The remaining \$746,743 was invested in the Pennsylvania Treasurer's INVEST Program for Local Governments and Nonprofits (INVEST). INVEST issues audited financial statements that are available to the public. The fair value of the Authority's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth of Pennsylvania provides external regulatory oversight for the external investment pool. At December 31, 2015, INVEST carried a AAA rating and had an average weighted maturity of less than one year.

Harrisburg Downtown Improvement District, Inc.

Concentrations of Credit Risk. Credit risk is limited to assessments receivable, investments, and cash balances. As of December 31, 2015, the Corporation had \$202,057 and \$237,075 on deposit in each money market account.

Redevelopment Authority of the City of Harrisburg

Custodial Credit Risk. The Redevelopment Authority does not have a deposit policy for custodial credit risk. As of December 31, 2015, the Redevelopment Authority's book balance was \$947,130 and the bank balance was \$963,668. Of the bank balance, \$657,791 was covered by federal depository insurance. The remaining balance of \$305,877 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

Investments

At December 31, 2015, the investments of the City were as follows:

Primary Government	
Unrestricted investments	
Money market funds	\$ 1,149,040
External investment pool	3,793,095
Total unrestricted investments	<u>4,942,135</u>
Restricted investments	
Money market funds	658,241
Total restricted investments	<u>658,241</u>
Fiduciary funds	
Money market funds	1,166,026
Certificates of deposit	1,266,966
Fixed income funds	22,072,247
U.S. Government obligations	956,089
U.S. Government agency obligations	997,361
Corporate bonds	2,296,041
Municipal bonds	56,074
Equity funds	<u>44,727,140</u>
Total fiduciary funds	<u>73,537,944</u>
Total primary government	<u><u>\$ 79,138,320</u></u>
Component Units	
Restricted investments	
Money market funds	\$ 27,655
External investment pool	847
Certificates of deposit	2,390,415
Guaranteed investment contract	<u>1,566,186</u>
Total restricted investments	<u>3,985,103</u>
Total component units	<u><u>\$ 3,985,103</u></u>

For financial statement purposes, the City's balance held in PLGIT, an external investment pool, is disclosed as a deposit.

Primary Government

Custodial credit risk. Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The City has no policy, other than as presented above, that further limits its custodial credit investment risk. Of the City's total investments of \$79,138,320, \$5,600,376 was held by the counterparty's trust department or agent not in the City's name.

The City uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for the City's funds. These funds are invested in the Pennsylvania Treasurer's INVEST Program for Local Governments and Nonprofits (INVEST) which separately issues audited

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

financial statements which are available to the public. The fair value of the City's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth of Pennsylvania provides external regulatory oversight of the pool.

Concentration of credit risk. The City places no limit on the amount the City may invest in any one issuer. At December 31, 2015, there were no investments that represent more than five percent of the City's total investments.

Credit risk. The City does not have a formal policy relating to credit risk of investments. The City's money market, external investment pool, and fixed income investments had the following level of exposure to credit risk as of December 31, 2015:

	Fair Value	Rating
Money market funds	\$ 2,973,307	AAA
External investment pool	\$ 3,793,095	AAA
Certificates of deposit	\$ 1,266,966	AA+
Fixed income funds	\$ 2,541,741	*AAA
Fixed income funds	\$ 12,294,250	*AA
Fixed income funds	\$ 7,236,256	*A
U.S. Government obligations	\$ 956,089	AA+
U.S. Government agency obligations	\$ 997,361	AA+
Corporate bonds	\$ 209,674	AAA
Corporate bonds	\$ 47,049	AA+
Corporate bonds	\$ 149,776	AA
Corporate bonds	\$ 327,969	AA-
Corporate bonds	\$ 263,360	A+
Corporate bonds	\$ 518,153	A
Corporate bonds	\$ 226,270	A-
Corporate bonds	\$ 350,998	BBB+
Corporate bonds	\$ 40,327	BBB
Corporate bonds	\$ 41,868	BBB-
Corporate bonds	\$ 120,597	Unrated
Municipal bonds	\$ 56,074	AA

* This is the weighted-average quality rating for a mutual fund made up of fixed income securities.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

Interest rate risk. The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of the City's money market, external investment pool, and fixed income investments and their related average maturities:

Investment Type	Fair Value	Investment Maturities			
		2016	2017-2021	2022-2026	2027 and beyond
Money market funds	\$ 2,973,307	\$ 2,973,307	\$ -	\$ -	\$ -
External investment pool	3,793,095	3,793,095	-	-	-
Certificates of deposit	1,266,966	-	1,222,918	44,048	-
Fixed income funds	22,072,247	-	2,396,691	19,675,556	-
U.S. Government obligations	956,089	-	258,442	456,991	240,656
U.S. Government agency obligations	997,361	-	154,860	257,042	585,459
Corporate bonds	2,296,041	-	835,271	963,382	497,388
Municipal bonds	56,074	-	-	-	56,074
Total	<u>\$ 34,411,180</u>	<u>\$ 6,766,402</u>	<u>\$ 4,868,182</u>	<u>\$ 21,397,019</u>	<u>\$ 1,379,577</u>

Workers' Compensation

In accordance with the provisions of the Pennsylvania Workers' Compensation Act, the City has secured an exemption from the necessity of insuring its workers' compensation liability and has elected to maintain a separate fund to provide a reserve for claimants entitled to benefits. Since inception, a total of \$600,000 has been deposited in a bank trust account through December 31, 2015. Interest of \$1,499,040 has been earned on the deposits and claims of \$700,000 have been paid from the trust account from inception through December 31, 2015. During 2006, the City withdrew \$1,300,000 to fund operating deficits of the General Fund. At December 31, 2006, the City had deposited \$1,050,000 back into the fund, giving the City total assets held as reserves of \$1,149,040 at December 31, 2015, of which \$145,682 is included in the General Fund, \$726,340 is included in the General Fund as due to CRW, and \$277,018 is included in the Sanitation Fund as investments at December 31, 2015.

Component Unit

Redevelopment Authority of the City of Harrisburg

Restricted investments represent resources set aside for liquidation of specific obligations.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

The fair (contract) value of the investments of the Redevelopment Authority at December 31, 2015 was as follows:

Investments	Fair (Contract) Value
Certificates of deposit	\$ 2,390,415
Money market funds	27,655
External investment pool	847
Guaranteed investment contract	1,566,186
Total investments	<u>\$ 3,985,103</u>

The Redevelopment Authority uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for the Redevelopment Authority's funds. These funds are invested in the Pennsylvania Treasurer's INVEST Program for Local Governments and Nonprofits (INVEST), which separately issues audited financial statements that are available to the public. The fair value of the Redevelopment Authority's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth of Pennsylvania provides external regulatory oversight of the pool.

Custodial Credit Risk. The Redevelopment Authority does not have an investment policy for custodial credit risk. At December 31, 2015, the Authority's certificates of deposit were insured by the Federal Deposit Insurance Corporation. The remaining investments of the Authority were not exposed to custodial credit risk, because those investments are not evidenced by securities in book entry or paper form.

Concentration of Credit Risk. The Redevelopment Authority places no limit on the amount the Redevelopment Authority may invest in any one issuer. At December 31, 2015, more than five percent of the Redevelopment Authority's investments were held with the following issuer:

Issuer	Contract Value	Percentage
Guaranteed investment contract		
Bank of America - 5.3%	\$ 1,566,186	39.30%

Credit Risk. The Redevelopment Authority does not have a formal policy that would limit its investment choices with regard to credit risk. The Redevelopment Authority's investments had the following level of exposure to credit risk as of December 31, 2015:

	Fair (Contract) Value	Rating
Money market funds	\$ 27,655	AAA
External investment pool	847	AAA
Guaranteed investment contract	1,566,186	Unrated

Interest Rate Risk. The Redevelopment Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from

increasing interest rates. The Redevelopment Authority's money market funds, external investment pool, and guaranteed investment contract have a related average maturity of less than one year as of December 31, 2015.

3. PROPERTY TAXES

Based upon assessed valuations provided by the County, the City bills and collects its own property taxes. Delinquent accounts are turned over to the County, which collects the taxes on behalf of the City. The schedule for property taxes levied for 2015 is as follows:

January 1, 2015	- lien date
January 31, 2015	- original levy date
January 31 – March 31, 2015	- 2% discount period
April 1 – May 31, 2015	- face payment period
June 1 – December 31, 2015	- 10% penalty period
January 1, 2016	- turned over to County for collection

The City is permitted by the Third Class City Code to levy real estate taxes up to 25 mills on every dollar of assessed valuation for general City purposes. However, under an order of court dated December 20, 1982, the City was authorized to exceed the statutory general millage rate, up to a maximum of 30 mills.

The real property tax imposed by the City in 2015 was 5.16 mills on improvements and 30.97 mills on land. Both land and improvements are assessed at 100% of market value, with an effective combined equivalent single millage rate of 10.8527 mills.

Property taxes are recorded as of the date levied. Amounts not collected within sixty days after the end of the year are reported as unavailable in the governmental funds.

In addition, City taxes may be paid in four installments due on or before January 31, March 31, May 31, and July 31 of the tax year with no discount period allowed. Any delinquent installment is subject to a penalty of 10%.

4. RENT RECEIVABLE

Primary Government

In accordance with the Agreement, as disclosed in Note 1, the City receives monthly rent payments from PEDFA based upon the flow of funds. As a result of this, governmental activities investment earnings for the year ended December 31, 2015 include rent revenue in the amount of \$1,367,000, of which \$790,160 is recorded as rent receivable as December 31, 2015. The receivable is offset with an unavailable revenue in the General Fund, as payments were not received in the City's availability period.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

Contingent upon the available funds in accordance with the Agreement, as disclosed in Note 1, the following amounts are to be received by the City in future years:

Period ending December 31,	Rent
2016	\$ 1,833,010
2017	1,798,000
2018	1,762,331
2019	2,241,682
2020	1,057,258
2021-2025	5,510,013
2026-2030	5,926,008
2031-2035	6,408,261
2036-2040	6,967,327
2041-2045	7,615,435
2046-2050	8,366,770
2051-2053	5,429,726
Total	<u>\$ 54,915,821</u>

Component Unit

Harrisburg Parking Authority

In accordance with the Agreement, as disclosed in Note 1, the Authority receives monthly rent payments from PEDFA based upon the flow of funds. During the year ended December 31, 2013, the Authority entered into the 2013 Harrisburg Downtown Parking Cooperation Agreement with the City and Harristown Development Corporation, of which the Authority directs these monthly rent payments received from PEDFA directly to the City. As a result of this, investment earnings and corresponding expenses for the year ended December 31, 2015 amounted to \$1,133,000, of which \$678,542 is recorded as investment earnings and due to the City as December 31, 2015. The City has reported a receivable from the Authority that is offset with an unavailable revenue in the General Fund, as payments were not received in the City's availability period.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

Contingent upon the available funds in accordance with the Agreement, as disclosed in Note 1, the following amounts are to be received by the Authority and then disbursed to the City in future years:

Period ending December 31,	Rent
2016	\$ 1,166,990
2017	1,202,000
2018	1,238,060
2019	1,275,201
2020	1,313,458
2021-2025	7,182,524
2026-2030	8,326,514
2031-2035	9,652,711
2036-2040	11,190,139
2041-2045	12,972,437
2046-2050	15,038,611
2051-2053	10,149,741
Total	<u>\$ 80,708,386</u>

5. NOTES RECEIVABLE

On December 23, 2013, the Authority entered into an Agreement dated December 1, 2013 with PEDFA. Under the Agreement, the Authority agreed to lease, for a period of approximately forty years, certain parking facilities, meters, and lots for an upfront acquisition price of approximately \$267 million, plus four notes receivable, with a present value of approximately \$12 million. At closing on December 23, 2013, at the request of the City, the Authority assigned the notes receivable to the City, County, and Bond Insurer. Any surplus revenues (as defined in the Agreement), are to be paid on the notes receivable, with 75% going to the Bond Insurer and the County and 25% going to the City, until such time as the Bond Insurer and the County are made whole and then all amounts going to the City. The present value of the City's notes, discounted at 5.833 percent over forty years, in the amount of approximately \$7.1 million, is presented as notes receivable on the Governmental Activities statement of net position and General Fund balance sheet. The General Fund balance sheet also presents this amount as unavailable revenue.

6. BENEFIT TRUST DISTRIBUTION AND ACCRUED TERMINATION BENEFITS

Those Authority employees who were laid off as a result of the Agreement and met certain criteria were offered a severance package including health insurance and supplemental unemployment benefits through June 30, 2015. The cost of these benefits was reported as accrued termination benefits at December 31, 2013. The Authority established a trust for each type of benefit during the year ended December 31, 2014. The balance remaining in the trust, after payment of such benefits, in the amount of \$404,792, was returned to the Authority during the year ended December 31, 2015.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

As a result of the consummation of the Agreement, there was one employee who was eligible for post-employment benefits. The amount of other post-employment benefits was based on an estimate of the actuarial present value of medical coverage as of July 1, 2015 (date of termination) for coverage for this employee and his spouse to age 65 and was included on the financial statements at December 31, 2014 as accrued termination benefits. The accrued termination benefits were paid during the year ended December 31, 2015.

7. INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances at December 31, 2015 is as follows:

<u>Primary Government</u>	Due from Other Funds	Due to Other Funds
General Fund	\$ 6,960,881	\$ 797,813
Grant Programs Fund	720,351	5,635,256
Nonmajor governmental funds	309,205	1,041,528
Total governmental funds	<u>7,990,437</u>	<u>7,474,597</u>
Harrisburg Senators Fund	78,386	-
Incinerator Fund	736,325	141,385
Sanitation Fund	-	987,407
Total proprietary funds	<u>814,711</u>	<u>1,128,792</u>
Agency Fund	-	201,759
Total primary government	<u>\$ 8,805,148</u>	<u>\$ 8,805,148</u>

These amounts represent short-term receivables and payables for unsettled transactions and short-term borrowings between funds for the purposes of cash flow.

The composition of interfund transfers for the year ended December 31, 2015 is as follows:

<u>Primary Government</u>	Transfers In	Transfers Out
General Fund	\$ 7,500,805	\$ 10,125,011
Grant Programs Fund	-	4,753,776
Debt Service Fund	9,354,157	272,950
Nonmajor governmental funds	781,957	1,012,944
Total governmental funds	<u>17,636,919</u>	<u>16,164,681</u>
Harrisburg Senators Fund	272,950	-
Sanitation Fund	-	1,745,188
Total proprietary funds	<u>272,950</u>	<u>1,745,188</u>
Total primary government	<u>\$ 17,909,869</u>	<u>\$ 17,909,869</u>

Interfund transfers were made primarily to fund debt service, to move excess cash per budgeted transfers, to provide for capital project fund expenditures, and to reimburse for other funds for grant related expenditures.

8. INTERGOVERNMENTAL REVENUE

The General Fund intergovernmental revenue for the year ended December 31, 2015 is as follows:

Commonwealth of Pennsylvania, Pension System Aid	\$ 2,158,604
Commonwealth of Pennsylvania, Capital fire protection	496,000
Commonwealth of Pennsylvania, Department of Transportation	397,075
Utilities payments in lieu of taxes from other governments	45,699
Harrisburg Parking Authority	454,458
	<u>\$ 3,551,836</u>

The City also participates in a number of state and federal grant programs. Revenues from these programs are as follows:

Grant Programs Fund	
Community Development Block Grant	\$ 1,613,046
Lead Based Paint Grant	223,526
HOME Program	365,133
Section 108 Program	349,256
EPA Grant	175,914
Federal and Pennsylvania Emergency Management Agency	310,253
Federal and state capital projects	325,023
Public Safety Partnership and Community Policing grants	261,349
Pennsylvania Department of Community and Economic Development	4,504,000
Other federal grants	42,539
	<u>\$ 8,170,039</u>

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

9. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 is as follows:

Primary Government

	Beginning of Year	Additions	Retirements and Dispositions	End of Year
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 7,144,863	\$ -	\$ -	\$ 7,144,863
Construction in progress	36,733	-	(36,733)	-
Artifacts	18,649,000	-	-	18,649,000
Total capital assets, not being depreciated	25,830,596	-	(36,733)	25,793,863
Capital assets, being depreciated				
Buildings	65,409,989	49,423	(691,948)	64,767,464
Improvements	25,017,075	362,698	(464,086)	24,915,687
Equipment and furniture	34,632,262	620,574	(1,166,200)	34,086,636
Infrastructure	97,169,707	1,463,415	464,086	99,097,208
Total capital assets, being depreciated	222,229,033	2,496,110	(1,858,148)	222,866,995
Less accumulated depreciation for				
Buildings	(36,475,039)	(1,781,787)	77,844	(38,178,982)
Improvements	(8,195,115)	(469,031)	-	(8,664,146)
Equipment and furniture	(33,314,556)	(430,251)	1,154,699	(32,590,108)
Infrastructure	(74,407,906)	(2,546,383)	-	(76,954,289)
Total accumulated depreciation	(152,392,616)	(5,227,452)	1,232,543	(156,387,525)
Total capital assets, being depreciated, net	69,836,417	(2,731,342)	(625,605)	66,479,470
Governmental activities, capital assets, net	\$ 95,667,013	\$ (2,731,342)	\$ (662,338)	\$ 92,273,333
Business-type activities				
Capital assets, being depreciated				
Buildings	\$ 37,704,816	\$ -	\$ -	\$ 37,704,816
Equipment and furniture	3,379,687	247,900	-	3,627,587
Total capital assets, being depreciated	41,084,503	247,900	-	41,332,403
Less accumulated depreciation for				
Buildings	(4,940,110)	(928,600)	-	(5,868,710)
Equipment and furniture	(3,344,761)	(22,463)	-	(3,367,224)
Total accumulated depreciation	(8,284,871)	(951,063)	-	(9,235,934)
Business-type activities, capital assets, net	\$ 32,799,632	\$ (703,163)	\$ -	\$ 32,096,469

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

Depreciation and amortization expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 1,637,549
Community and economic development	664,455
Public safety	578,111
Public works	<u>2,347,337</u>
Total depreciation expense - governmental activities	<u>\$ 5,227,452</u>
Business-type activities:	
Harrisburg Senators	\$ 928,600
Incinerator	17,500
Sanitation	<u>4,963</u>
Total depreciation expense - business-type activities	<u>\$ 951,063</u>

Component Units

	Beginning of Year	Additions	Retirements	End of Year
Harrisburg Parking Authority				
Buildings and improvements	\$ 7,999,997	\$ -	\$ -	\$ 7,999,997
Less accumulated depreciation	<u>(3,288,294)</u>	<u>(211,863)</u>	<u>-</u>	<u>(3,500,157)</u>
Harrisburg Parking Authority, capital assets, net	<u>\$ 4,711,703</u>	<u>\$ (211,863)</u>	<u>\$ -</u>	<u>\$ 4,499,840</u>
	Beginning of Year	Additions	Retirements	End of Year
Harrisburg Downtown Improvement District, Inc.				
Capital assets, being depreciated				
Leasehold improvements	\$ 30,000	\$ -	\$ -	\$ 30,000
Visitor information center equipment	6,897	-	-	6,897
Marketing and office equipment	<u>57,335</u>	<u>-</u>	<u>-</u>	<u>57,335</u>
Total capital assets, being depreciated	<u>94,232</u>	<u>-</u>	<u>-</u>	<u>94,232</u>
Less accumulated depreciated for				
Property, equipment, and leasehold improvements	<u>(84,694)</u>	<u>(7,201)</u>	<u>-</u>	<u>(91,895)</u>
Total accumulated depreciation	<u>(84,694)</u>	<u>(7,201)</u>	<u>-</u>	<u>(91,895)</u>
Total capital assets, being depreciated, net	<u>9,538</u>	<u>(7,201)</u>	<u>-</u>	<u>2,337</u>
Project costs, being amortized				
Plaza improvement project costs	39,908	-	-	39,908
DID territory improvement project costs	<u>44,687</u>	<u>-</u>	<u>-</u>	<u>44,687</u>
Total project costs, being amortized	<u>84,595</u>	<u>-</u>	<u>-</u>	<u>84,595</u>
Less accumulated amortization for				
Project costs	<u>(50,123)</u>	<u>(5,639)</u>	<u>-</u>	<u>(55,762)</u>
Total accumulated amortization	<u>(50,123)</u>	<u>(5,639)</u>	<u>-</u>	<u>(55,762)</u>
Total project costs, being amortized, net	<u>34,472</u>	<u>(5,639)</u>	<u>-</u>	<u>28,833</u>
Harrisburg Downtown Improvement District, Inc. capital assets and project costs, net	<u>\$ 44,010</u>	<u>\$ (12,840)</u>	<u>\$ -</u>	<u>\$ 31,170</u>

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

	Beginning of Year	Additions	Retirements	End of Year
Redevelopment Authority of the City of Harrisburg				
Capital assets, not being depreciated				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Total capital assets, not being depreciated	30,000	-	-	30,000
Capital assets, being depreciated				
Buildings	2,093,040	-	-	2,093,040
Leasehold improvements	6,861,227	-	-	6,861,227
Total capital assets being depreciated	8,954,267	-	-	8,954,267
Less accumulated depreciation for				
Buildings	(287,793)	(52,326)		(340,119)
Leasehold improvements	(912,431)	(171,531)	-	(1,083,962)
Total accumulated depreciation	(1,200,224)	(223,857)	-	(1,424,081)
Total capital assets being depreciated, net	7,754,043	(223,857)	-	7,530,186
Redevelopment Authority of the City of Harrisburg, capital assets, net	\$ 7,784,043	\$ (223,857)	\$ -	\$ 7,560,186

10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2015 is as follows:

Primary Government

	Beginning of Year	Additions	Accretion	Retirements/ Settlements	End of Year	Current Portion
Governmental activities:						
Workers' compensation claims	\$ 3,754,573	\$ 500,454	\$ -	\$ (674,282)	\$ 3,580,745	\$ 734,053
Bonds payable (Note 11)	22,691,899	-	1,187,665	(4,495,000)	19,384,564	4,326,566
Notes payable (Note 13)	37,740,413	-	1,748,451	(4,908,292)	34,580,572	4,777,282
Capital lease obligations (Note 15)	331,891	3,254,033	-	(165,573)	3,420,351	901,665
Vested compensated absences	5,198,947	3,587,281	-	(3,494,181)	5,292,047	661,779
Due to bond insurer (Note 14)	12,724,370	1,000,000	-	(27,761)	13,696,609	-
Settlement with suburban municipalities (Note 16)	5,225,000	-	-	(1,500,000)	3,725,000	1,500,000
Governmental activities Long-term liabilities	\$ 87,667,093	\$ 8,341,768	\$ 2,936,116	\$ (15,265,089)	\$ 83,679,888	\$ 12,901,345

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

	Beginning of Year	Additions	Amortization	Retirements/ Settlements	End of Year	Current Portion
Business-type activities:						
Workers' compensation						
claims	\$ 124,638	\$ 11,682	\$ -	\$ (44,333)	\$ 91,987	\$ 18,857
Bonds payable (Note 11)	7,020,972	-	3,632	(295,000)	6,729,604	310,000
Capital lease						
obligations (Note 15)	23,288	-	-	(12,079)	11,209	6,405
Vested compensated						
absences	156,379	65,008	-	(82,519)	138,868	10,064
Business-type activities						
Long-term liabilities	<u>\$ 7,325,277</u>	<u>\$ 76,690</u>	<u>\$ 3,632</u>	<u>\$ (433,931)</u>	<u>\$ 6,971,668</u>	<u>\$ 345,326</u>

Workers' compensation claims and compensated absences typically have been liquidated by the General Fund and the enterprise funds.

In January 2015, City Council approved a tax anticipation note in the amount of \$4,500,000, bearing interest at the New York Prime rate plus .75%, not to exceed 5.75% in any year, and maturing on June 30, 2015. The City did not draw against this note.

Component Units

	Beginning of Year	Additions	Amortization	Retirements	End of Year	Current Portion
Redevelopment Authority of the City of Harrisburg:						
Bonds payable (Note 11)	\$ 93,590,000	\$ -	\$ -	\$ -	\$ 93,590,000	\$ 3,680,000
Notes payable (Note 13)	1,111,367	-	-	(61,565)	1,049,802	340,523
Due to other governments	170,832	-	-	-	170,832	-
Total long-term liabilities	94,872,199	-	-	(61,565)	94,810,634	4,020,523
Less:						
Unamortized discount	(35,271,571)	-	3,406,816	-	(31,864,755)	-
Redevelopment Authority of the City of Harrisburg						
Long-term liabilities	<u>\$ 59,600,628</u>	<u>\$ -</u>	<u>\$ 3,406,816</u>	<u>\$ (61,565)</u>	<u>\$ 62,945,879</u>	<u>\$ 4,020,523</u>

11. BONDS PAYABLE

Bonds payable at December 31, 2015 are as follows:

	Primary Government		Total Primary Government
	Governmental Activities	Business-type Activities	
Bonds payable	\$ 19,384,564	\$ 6,760,000	\$ 26,144,564
Unamortized discount	-	(30,396)	(30,396)
Total bonds payable	<u>\$ 19,384,564</u>	<u>\$ 6,729,604</u>	<u>\$ 26,114,168</u>

	Component Unit Redevelopment Authority
Bonds payable	\$ 93,590,000
Unamortized discount	(31,864,755)
Total bonds payable	<u>\$ 61,725,245</u>

Bonds payable are accounted for in the following activities:

	Governmental Activities	Business-type Activities	Total Primary Government
General Obligation Bonds			
Series D of 1997	\$ 19,384,564	\$ -	\$ 19,384,564
Total general obligation bonds	<u>19,384,564</u>	<u>-</u>	<u>19,384,564</u>
Revenue Bonds			
Senators Revenue Bonds			
Series A-2 of 2005	-	6,760,000	6,760,000
Less: Unamortized discount	-	(30,396)	(30,396)
Total revenue bonds	<u>-</u>	<u>6,729,604</u>	<u>6,729,604</u>
Total bonds payable	<u>\$ 19,384,564</u>	<u>\$ 6,729,604</u>	<u>\$ 26,114,168</u>

Bonds payable are accounted for in the Redevelopment Authority:

Guaranteed Revenue Bonds, Series	
A and B of 1998	\$ 93,590,000
Less: Unamortized discount	<u>(31,864,755)</u>
Total bonds payable	<u>\$ 61,725,245</u>

A settlement agreement was entered into on January 30, 2015 between the City, Assured Guaranty Municipal Corporation (AGM), and the Redevelopment Authority related to certain portions of the Strawberry Square Site located in City (Verizon Building) and subject to the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

The Redevelopment Authority is entitled to ownership of the Verizon Building after expiration of the lease with Verizon, which will terminate on February 29, 2016. Upon expiration of the lease with Verizon, the HDC agrees to lease the Verizon Building from the Redevelopment Authority pursuant to a lease agreement entered into on January 30, 2015. HDC also entered into another agreement with the Department of General Services of the Commonwealth of Pennsylvania (DGS) to sublease the Verizon Building (DGS lease). The term of the DGS lease commences March 1, 2016, the day after the expiration of the Verizon Lease, and expires by its terms on February 28, 2033. The rentals obtained from the DGS lease and paid by HDC to the Redevelopment Authority are expected to pay a portion of the payment due on the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998.

If sufficient revenues are not generated to the debt service on the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998 or Series B of 1998, any shortfalls in funds will be paid for by the City. In accordance with the Reimbursement Agreement between the City and the Redevelopment Authority, the Redevelopment Authority is required to reimburse the City for amounts paid for by the City under the guarantee. Interest will accrue on amounts owed by the Authority at a rate of 8% annually. As of December 31, 2015, no amounts were paid by the City to the Redevelopment Authority under either of the guarantees. Based on anticipated deficits of future cash flows, the City has accrued the present value of future anticipated payments under the guarantee in the amount of approximately \$15.3 million at December 31, 2015.

Under the terms of its respective debt agreements, the City is required to maintain certain balances in restricted trust accounts, to make timely payments to the trustee or to a sinking fund for principal and interest, and to insure and maintain assets acquired with the proceeds of the debt. During the year ended December 31, 2015, the City was not in compliance with such covenants. See Note 22 for further information on the City's compliance.

The composition of bonds outstanding included in the primary government at December 31, 2015 is as follows:

General Obligation Bonds

5.45%-5.52%, General Obligation Refunding Bonds, Series D of 1997, dated December 30, 1997, principal payable in semi-annual installments of \$1,132,161 to \$4,326,566 through September 15, 2022, to be serviced through general revenues of the City, issued to advance refund the City's General Obligation Bonds, Series B-1 of 1997, which was originally issued to fund certain capital projects of the City. \$ 19,384,564

Revenue Bonds

4.89%-5.29%, Senators Revenue Bonds, Series A-2 of 2005, dated January 2005 Series A-2 matures at various amounts from 2006 through 2030, issued to renovate the baseball stadium. 6,760,000

Total primary government bonds payable	26,144,564
Less: unamortized discount	<u>(30,396)</u>
Net primary government bonds payable	<u><u>\$ 26,114,168</u></u>

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

The composition of bonds outstanding of the Redevelopment Authority at December 31, 2015 is as follows:

Revenue Bonds

Guaranteed Revenue Bonds, Series A and B of 1998, dated December 19, 1998, consisting of term bonds maturing from 2016 to 2033 in annual installments of various amounts.

	\$ 93,590,000
Less: unamortized discount	<u>(31,864,755)</u>
Net Redevelopment Authority of the City of Harrisburg	<u><u>\$ 61,725,245</u></u>

Debt Service Requirements

The annual requirements to amortize all bonds outstanding as of December 31, 2015, using interest rates in effect at December 31, 2015 for variable rate issues, are as follows:

	General Obligation		Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Primary Government						
2016	\$ 4,326,566	\$ 168,434	\$ 310,000	\$ 343,026	\$ 4,636,566	\$ 511,460
2017	4,099,088	395,912	325,000	327,403	4,424,088	723,315
2018	3,874,072	615,928	340,000	310,859	4,214,072	926,787
2019	3,672,507	822,493	360,000	293,287	4,032,507	1,115,780
2020	1,132,161	352,839	375,000	274,690	1,507,161	627,529
2021-2025	2,280,170	969,829	2,200,000	1,051,265	4,480,170	2,021,094
2026-2030	-	-	2,850,000	392,782	2,850,000	392,782
	<u>19,384,564</u>	<u>3,325,435</u>	<u>6,760,000</u>	<u>2,993,312</u>	<u>26,144,564</u>	<u>6,318,747</u>
Less unamortized discount	-	-	(30,396)	-	(30,396)	-
Primary Government, net	<u>\$ 19,384,564</u>	<u>\$ 3,325,435</u>	<u>\$ 6,729,604</u>	<u>\$ 2,993,312</u>	<u>\$ 26,114,168</u>	<u>\$ 6,318,747</u>
	General Obligation		Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Redevelopment Authority of the City of Harrisburg						
2016	\$ -	\$ -	\$ 3,680,000	\$ -	\$ 3,680,000	\$ -
2017	-	-	7,380,000	-	7,380,000	-
2018	-	-	7,410,000	-	7,410,000	-
2019	-	-	7,430,000	-	7,430,000	-
2020	-	-	7,460,000	-	7,460,000	-
2021-2025	-	-	37,360,000	-	37,360,000	-
2026-2030	-	-	10,900,000	-	10,900,000	-
2031-2033	-	-	11,970,000	-	11,970,000	-
	<u>-</u>	<u>-</u>	<u>93,590,000</u>	<u>-</u>	<u>93,590,000</u>	<u>-</u>
Less unamortized discount	-	-	(31,864,755)	-	(31,864,755)	-
Redevelopment Authority of the City of Harrisburg, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,725,245</u>	<u>\$ -</u>	<u>\$ 61,725,245</u>	<u>\$ -</u>
Total	<u>\$ 19,384,564</u>	<u>\$ 3,325,435</u>	<u>\$ 68,454,849</u>	<u>\$ 2,993,312</u>	<u>\$ 87,839,413</u>	<u>\$ 6,318,747</u>

12. DEFEASANCE OF DEBT

The City and its component units defeased general obligation and other bonds in prior years by placing the proceeds of net bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

defeased bonds are not included in the City's financial statements. At December 31, 2015, the following bonds outstanding are considered defeased:

City of Harrisburg	
General Obligation Bonds, Series A of 1995	\$ 15,740,000
Harrisburg Parking Authority	
Parking Revenue Bonds, Series R of 2007	14,720,000
Parking Revenue Bonds, Series T of 2007	15,100,000
Parking Revenue Bonds, Series U-1 of 2011	7,885,000
	<u>\$ 53,445,000</u>

13. NOTES PAYABLE

The City entered into various promissory notes under Section 108 of the Housing and Community Development Act of 1974 (Public Law 93-383), as amended. The proceeds from the notes were to administer acquisition, relocation, clearance, rehabilitation, and disposal of City properties. These notes do not have continuing compliance requirements.

As collateral, the City pledged all grants approved or for which the City may become eligible under Title I of the Housing and Community Development Act of 1974, as amended, and program income derived from disposition by sale or lease of any real property to the extent acquired or rehabilitated with the guaranteed loan funds, including any interest earned on such disposition proceeds.

Interest payments are required to be made to the Federal Financing Bank on the daily unpaid principal balances.

The composition of promissory notes outstanding under Section 108 (included in governmental activities) at December 31, 2015 is as follows:

Variable based on 90-day LIBOR plus 20 basis points (.81% at December 31, 2015), Section 108 Note, dated May 13, 2000, interest payable semiannually and principal payable in annual installments of \$285,000 to \$335,000, through August 1, 2019, to be serviced through general revenues of the City.	\$ 1,235,000
4.99%-5.77%, Section 108 Note, dated September 14, 2006, interest payable semiannually and principal payable in annual installments of \$210,000 to \$225,000, through August 1, 2026, to be serviced through general revenues of the City.	<u>2,325,000</u>
	<u>3,560,000</u>

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

The composition of notes payable included in the primary government at December 31, 2015 is as follows:

5.45%-5.52%, General Obligation Refunding Notes, Series F of 1997, dated December 31, 1997, principal payable in annual installments of \$3,402,904 to \$5,485,063 beginning September 15, 1999 through September 15, 2022, to be serviced through general revenues of the City, issued to currently refund the City's General Obligation Bonds, Series of 1995, which was originally issued to pay for certain capital projects of the City.	30,196,266
4.13%, Pennsylvania Infrastructure bank loan, principal payable through March 26, 2018, to be serviced through general revenues of the City, used to fund City street resurfacing projects.	824,306
	<u>31,020,572</u>
Total primary government notes payable	<u>\$ 34,580,572</u>

The composition of notes payable of the Redevelopment Authority at December 31, 2015 is as follows:

3.75%, 2000 Infrastructure Bank Loan, for bridge financing of the Transportation Center improvements until grant money is received and is payable in annual installments through December 31, 2009. However, the final principal payment has not been paid as of December 31, 2015, as the Redevelopment Authority is seeking loan forgiveness.	\$ 271,427
2008 loan agreement, for financing construction of Susquehanna Harbor Safe Haven and is to be forgiven over a fifteen-year period, given that certain compliance requirements are met.	283,335
4.83% for the first three years and variable based on the prime rate thereafter (3.5% at December 31, 2015), 2008 loan agreement, for financing construction of Susquehanna Harbor Safe Haven and is payable through December 10, 2026.	495,040
Total Redevelopment Authority of the City of Harrisburg	<u>\$ 1,049,802</u>

The annual requirements to amortize all notes payable outstanding as of December 31, 2015, using interest rates in effect at December 31, 2015 for variable rate issues, are as follows:

Year Ending December 31,	Governmental Activities	
	Principal	Interest
Primary Government		
2016	\$ 4,777,282	\$ 327,105
2017	4,605,768	515,724
2018	4,408,881	694,208
2019	3,947,903	858,743
2020	5,695,063	1,773,899
2021-2025	10,920,675	4,408,343
2026	225,000	12,982
	<u>\$ 34,580,572</u>	<u>\$ 8,591,004</u>

Year Ending December 31,	Redevelopment Authority of the City of Harrisburg	
	Principal	Interest
2016	\$ 340,523	\$ 80,840
2017	70,368	14,656
2018	71,685	13,339
2019	73,049	11,975
2020	74,462	10,562
2021-2025	345,325	29,800
2026	74,390	967
	<u>\$ 1,049,802</u>	<u>\$ 162,139</u>

14. DUE TO BOND INSURER

At times during 2013, the City's bond insurer made payments to bondholders on behalf of the City. These amounts and the accrued interest were reported as due to the bond insurer in the City's General Fund, because they were due and payable. During the year ended December 31, 2013, the City and the bond insurer entered into an agreement to restructure the amounts due to the bond insurer. Under the agreement, the City's is obligated to reimburse the bond insurer for payments made pursuant to the insurance policy at an interest rate of 6.10% per annum compounded semi-annually. In return, the bond insurer has agreed to forebear from exercising its rights and remedies under the Bonds, the Ordinance, and other applicable law. During the year ended December 31, 2015, the bond insurer paid \$1 million to bondholders on behalf of the City. The balance due to bond insurer at December 31, 2015 was \$13,696,609.

Under the agreement, repayment is based on a schedule that includes future drawdowns. As such, no repayment schedule is available for amounts due at December 31, 2015. However, principal payments are not scheduled to begin until 2023.

15. LEASES

Capitalized Lease Obligations

Primary Government

The City leased certain equipment under long-term lease agreements which were classified as capital leases. Capital leases were issued during the years ended December 31, 2007 and 2015. As of December 31, 2015, the governmental activities included equipment and furniture under capital leases with a net book value of \$523,609. Restricted assets of the Capital Projects Fund include approximately \$2.6 million in capital lease proceeds held by the City pending disbursement.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

The future minimum payments under capital leases and the minimum lease payments at December 31, 2015 are as follows:

<u>Lease year ending December 31,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
2016	\$ 1,038,304	\$ 6,405	\$ 1,044,709
2017	510,307	4,804	515,111
2018	426,316	-	426,316
2019	426,321	-	426,321
2020	391,939	-	391,939
2021-2023	1,061,883	-	1,061,883
Total commitment under capital lease	3,855,070	11,209	3,866,279
Less amount representing interest	(434,719)	-	(434,719)
Present value of future minimum lease payments	<u>\$ 3,420,351</u>	<u>\$ 11,209</u>	<u>\$ 3,431,560</u>

Component Units

Transportation Center Lease Income

The Redevelopment Authority leases space and parking to a commercial rail company and other tenants with lease ending dates varying through 2019. Additionally, the Redevelopment Authority leases space to a non-profit corporation with a lease ending date of June 30, 2018. These leases are noncancellable operating leases.

Minimum rentals on noncancellable leases through 2019 are as follows:

<u>Lease year ending December 31,</u>	
2016	\$ 359,182
2017	266,758
2018	120,705
2019	<u>12,112</u>
Total minimum lease payments	<u>\$ 758,757</u>

16. SETTLEMENT WITH SUBURBAN MUNICIPALITIES

The City had an agreement to transport and treat sewage for several suburban municipalities, from whom the City collected fees for such transportation and treatment. The suburban municipalities alleged that the City had overcharged for at least 10 years, evidenced by the alleged excessive transfer of "administrative fees" from the sewer fund into the City's General Fund. The municipalities claimed they were owed approximately \$15 million in reimbursement. The Receiver, with the cooperation and agreement of the suburban municipalities, through their counsel, negotiated a compromise of the claim and other amounts that might be owed to the suburban municipalities as a result of the overcharging of sewer rates. In settlement of these claims, in addition to the City's agreement to credit certain amounts as part of the suburban municipalities' prospective financial commitments to the comprehensive overhaul of the sewer

system, the City will make payments to the suburban municipalities pursuant to the following payment schedule.

<u>Year Ending December 31,</u>	
2016	\$ 1,500,000
2017	1,000,000
2018	1,000,000
2019	<u>225,000</u>
	<u>\$ 3,725,000</u>

17. PENSION PLANS

Primary Government

Plan Description and Administration

The City has four defined benefit pension plans. Two of the plans, Non-uniformed Employees' Plans A and B, are controlled by provisions of Ordinance-Bill No. 49-1984, adopted pursuant to Act 15. On January 2, 2002, the assets of Plans A and B were combined, but the requirements for eligibility and benefits remain separate. The Combined Firefighters' Plan is controlled by provisions of Ordinance-Bill No. 44-2002. For these plans, the City contributes to the Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer Public Employees Retirement System (PERS). The remaining plan, the Combined Police Pension Plan, was established January 1, 1999 under Ordinance-Ordinance No. 21 of 1998 and is controlled by the provisions of Ordinance No. 5 of 2001, as amended. This ordinance withdrew the Police Officers' Plan A and Police Officers' Plan B from PMRS, and established an amended and restated pension plan for police officers of the City. The Combined Police Pension Plan is a single-employer pension plan and is controlled by a separate independent board of trustees.

The plans have been established to cover substantially all full-time employees. Employees become eligible for participation in a plan immediately upon employment and become fully vested after 20 years of service for City A plans, 10 years for City B and Combined Firefighters' Plans, and 20 years for the Combined Police Pension Plan. The plans have been established by City ordinance in accordance with the authority for municipal contributions required by Act 205-1984 (Act 205) of the Pennsylvania legislature, as amended by Act 189-1990. The plans require covered employees to contribute a percentage of total compensation.

PMRS issues a separate Comprehensive Annual Financial Report (CAFR), which may be obtained by writing to the Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, PA 17108-1165 or by calling 1-800-622-7968.

In addition, the City of Harrisburg Police Pension Board issues a separate publicly available financial report that includes financial statements and required supplementary information for the Combined Police Pension Fund. That report may be obtained by writing to the City of Harrisburg Police Pension Board, The Reverend Dr. Martin Luther King, Jr. City Government Center, 10 North Second Street, Harrisburg PA 17101 or by calling 717-255-6507.

The Combined Police Pension Plan is governed by the City of Harrisburg Police Pension Board, which consists of three persons appointed by the City, three persons appointed by the

representatives of the Members' collective bargaining unit, and a neutral person appointed by a majority of the first six representatives. The City of Harrisburg Police Pension Board is responsible for the management of the Combined Police Pension Plan assets, appointment of the Combined Police Pension Plan trustee or custodian, and selection of investment advisors and managers.

Administrative costs, including the investment manager, custodial trustee, and actuarial services, are charged to the Combined Police Pension Plan and funded through investment earnings.

Benefit Provisions

Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act (Act 205), grants the authority to establish and amend the benefit terms of the Non-uniformed Employees' Plan A and B and Combined Firefighters' Plan to City Council. As outlined in Ordinance No. 21 of 1998, as amended by Ordinance No. 5 of 2001, the authority to establish and amend benefit provisions of the Combined Police Pension plan rests with the participants' collective bargaining unit and the City's administration. It then must be approved by the Board of the Combined Police Pension Plan and ratified and enacted by City Council.

The benefits provided by the plans differ by employment group and are based upon average compensation and length of service. Normal benefits are calculated at 2.5% per year of credited service multiplied by the final average annual salary for the Non-uniformed Employees' A and Combined Firefighters' plan. In no case may the benefit exceed 50% of the final average annual salary. The benefits provided by the Non-uniformed Employees' B plan are calculated at 2.0% per year of credited service multiplied by the final average annual salary. In no case may the benefit exceed 75% of the final average annual salary. For participants of the Combined Police Pension Plan, participants are eligible for normal retirement after attainment of age 50. For participants of the Combined Police Pension Plan hired after September 2013, participants are eligible for normal retirement after attainment of age 50 and completion of 20 years of service. The benefits provided by the Combined Police Pension Plan are calculated at 50% of the participant's average monthly compensation, plus an incremental pension equal to 2.5% of the average monthly compensation for each complete year of service in excess of 20 years, up to a maximum of 65% of average monthly compensation for participants who complete 26 years of service. An additional 5% of average compensation is added to participants who complete 27 years of service, up to a maximum monthly pension of 70% of average monthly compensation. Effective September 2013, the benefit provisions of the Combined Police Pension Plan for new hires were changed to decrease the maximum monthly pension to 50% of average monthly compensation plus an incremental pension equal to 1/40th of the pension for each complete year of service in excess of 20 years and before age 65, up to a maximum of \$100 per additional month. The Combined Police Pension Plan defines average monthly compensation as the final annualized basic compensation rate, including longevity payments, or the average monthly compensation, including longevity payments, received during the last five years of employment, if higher.

The plans provide retirement, disability, and death benefits to plan members and their beneficiaries. Cost-of-living allowances are provided at the discretion of the plans.

In addition, Non-uniformed Employees' Plan A is closed to new entrants.

Contributions

Act 205 requires that annual contributions be based upon the plan's minimum municipal obligation (MMO). The MMO is based upon the plan's bi-annual actuarial valuation.

Contributions by the City are determined under the entry age normal method. Unfunded past service liability is amortized over the average future service of active participants.

Employee contributions to the plan are based on a percentage of compensation. There are no active employees of the Non-uniformed plan A at December 31, 2015. Non-uniformed employees are required to contribute 5% of annual compensation for plan B, currently reduced to 4%. Fire and police employees contribute 5% of annual compensation plus \$1 per month. An interest rate of 5.5% is applied to the non-uniformed and fire employees' accounts. Employees' accumulated contributions plus interest (if applicable) will be returned upon termination or death if no other benefits are payable under the plan. As outlined in Ordinance No. 21 of 1998, as amended, the authority to make amendments to the contribution rate of the Combined Police Pension Plan participants rests with the participants' collective bargaining unit and the City's administration. It then must be approved by the Board of the Combined Police Pension Plan and ratified and enacted by City Council. The plans are also eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program, which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the City in accordance with Act 205.

The Commonwealth of Pennsylvania allocates foreign fire and casualty insurance premium collections to aid individual municipalities. The monies received must be contributed to the pension plans or used to pay debt service on unfunded pension liability bonds. Significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the annually required contribution. The City contributed \$358,000 to the Combined Firefighters' Pension Plan and \$2,972,450 to the Combined Police Pension Plan for the year ended December 31, 2015.

Contributions are recognized when due as required by Act 205.

Plan Membership

At December 31, 2015, Plan membership consisted of the following:

	Non-Uniformed Employees'	Firefighters'	Combined Police
Active members	138	75	132
Inactive members or beneficiaries currently receiving benefits	217	130	212
Inactive members entitled to but not yet receiving benefits	32	1	2
	<u>387</u>	<u>206</u>	<u>346</u>

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

Changes in the Net Pension Liability (Asset)

The changes in the net pension liability (asset) of the City for the year ended December 31, 2015 were as follows:

Non-uniformed Employees' Pension Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2014 (based on the measurement date of December 31, 2013)	\$ 56,466,339	\$ 77,552,134	\$ (21,085,795)
Changes for the year:			
Service cost	1,126,817	-	1,126,817
Interest	2,971,992	-	2,971,992
Differences between expected and actual experience	6,989,303	-	6,989,303
Contributions - employer	-	14,004	(14,004)
Contributions - member	-	199,463	(199,463)
Investment income	-	3,833,485	(3,833,485)
Transfers	(3,135,289)	(3,135,317)	28
Benefit payments, including refunds	(4,075,097)	(4,075,097)	-
Administrative expenses	-	(155,705)	155,705
Net changes	3,877,726	(3,319,167)	7,196,893
Balances at December 31, 2015 (based on the measurement date of December 31, 2014)	\$ 60,344,065	\$ 74,232,967	\$ (13,888,902)
Plan fiduciary net position as a percentage of the total pension liability			123.0%

The net pension asset of the Non-uniformed Employees' Pension Plan is allocated between the governmental activities and the business-type activities in the amounts of \$12,263,900 and \$1,625,002, respectively, at December 31, 2015.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

Firefighters' Pension Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2014 (based on the measurement date of December 31, 2013)	\$ 64,749,958	\$ 72,447,623	\$ (7,697,665)
Changes for the year:			
Service cost	1,325,049	-	1,325,049
Interest	3,536,047	-	3,536,047
Differences between expected and actual experience	241,776	-	241,776
Contributions - employer	-	22,130	(22,130)
Contributions - member	-	226,360	(226,360)
Investment income	-	4,191,372	(4,191,372)
Benefit payments, including refunds	(3,614,868)	(3,614,868)	-
Administrative expenses	-	(154,993)	154,993
Net changes	1,488,004	670,001	818,003
Balances at December 31, 2015 (based on the measurement date of December 31, 2014)	\$ 66,237,962	\$ 73,117,624	\$ (6,879,662)
Plan fiduciary net position as a percentage of the total pension liability			110.4%

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

Combined Police Pension Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2014	\$ 83,767,036	\$ 75,237,247	\$ 8,529,789
Changes for the year:			
Service cost	1,490,190	-	1,490,190
Interest	6,895,688	-	6,895,688
Differences between expected and actual experience	(753,653)	-	(753,653)
Changes of assumptions	4,507,561	-	4,507,561
Contributions - employer	-	2,972,450	(2,972,450)
Contributions - member	-	462,539	(462,539)
Investment income	-	586,944	(586,944)
Benefit payments, including refunds	(5,630,072)	(5,630,072)	-
Administrative expenses	-	(48,790)	48,790
Net changes	6,509,714	(1,656,929)	8,166,643
Balances at December 31, 2015	<u>\$ 90,276,750</u>	<u>\$ 73,580,318</u>	<u>\$ 16,696,432</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>81.5%</u>

Actuarial Assumptions

The total pension liability for the Non-uniformed Employees' Pension Plan and the Firefighters' Pension Plan was determined by an actuarial valuation performed on January 1, 2015, with liabilities measured at December 31, 2014, using the following actuarial assumptions, applied to all periods in the measurement:

	Non-uniformed Employees' and Firefighters'
Actuarial assumptions:	
Investment rate of return	5.5%
Projected salary increases	3.0% - 8.3% *
* includes inflation rate of 3%	
Cost-of-living adjustment	3.0%
Actuarial assumptions based on PMRS Experience Study for the period January 1, 2005 to December 31, 2008	
Pre-retirement mortality	Males: RP 2000 with 1 year setback Females: RP 2000 with 5 year setback
Post-retirement mortality	Males and females: Sex distinct RP 2000 Combined Healthy Mortality

For the Combined Police Pension Plan, the total pension liability was measured as of December 31, 2015 and was determined by rolling forward liabilities from the January 1, 2015 actuarial valuation. Based upon an actuarial valuation performed as of January 1, 2015, the mortality table was updated from the UP 1984 Annuity Mortality table to the RP-2000 Table for Males and Females. This assumption change increased the total pension liability by \$4,507,561.

The actuarial assumptions for the January 1, 2015 actuarial valuation for the Combined Police Pension Plan include: a) mortality rates based on the RP-2000 Table for Males and Females; b) 8.00% investment rate of return, c) projected salary increase of 5.00%, d) 3.00% inflation rate, e) level dollar closed amortization method, and f) 10-year remaining amortization period.

Investment Policy - The Combined Police Pension Plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of the Combined Police Pension Plan. The Board of the Combined Police Pension Plan seeks to achieve long-term growth of the Combined Police Pension Plan's assets by maximizing long-term rate of return on investments and minimizing risk of loss to fulfill the Combined Police Pension Plan's current and long-term pension obligations.

Long-Term Expected Rate of Return – The PMRS System's (System) long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return are developed for each major asset class, for the portfolio as a whole, and at different levels of probability or confidence. There are four steps to this method:

1. Expected future real rates of return are based primarily on the 20-year historic nominal rates of return as reflected by applicable return indexes and may be adjusted for specific asset classes if, in the PMRS Board's opinion, any such asset classes are expected in the future to significantly vary from its 20-year historical returns.
2. The nominal rates of return by asset class are adjusted by a constant rate of expected future annual inflation rate of 3% to produce real rates of return.
3. The real rates of return are further adjusted by weighting each assets class using the PMRS portfolio target asset allocations. The results from steps 1 through 3 are presented in the chart labeled "System Nominal and Real Rates of Return by Asset Class."
4. These weighted real rates of return are then subjected to a probability simulation to understand the likelihood of success in achieving various portfolio return levels. Based on the most recent asset allocation study, the minimum acceptable confidence level for the PMRS Board has been determined to be 70%. The chart labeled "Confidence Levels for System Nominal and Real Rates of Return" identifies simulated portfolio returns at various confidence levels.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

The following are the System Nominal and Real Rates of Return by Asset Class as of December 31, 2015:

Asset Class	Target Allocation	Nominal Rate of Return	Long-Term Expected Real Rate of Return
Domestic equity (large capitalized firms)	25.0%	11.7%	8.7%
Domestic equity (small capitalized firms)	15.0%	11.4%	8.4%
International equity (developed markets)	15.0%	7.6%	4.6%
International equity (emerging markets)	10.0%	11.1%	8.1%
Real estate	20.0%	9.7%	6.7%
Fixed income	15.0%	2.0%	-1.0%
Total portfolio	100.0%	9.2%	6.2%

The following Confidence Levels for System Nominal and Real Rates of Return as of December 31, 2015:

Confidence Interval	Nominal Rate of Return	Long-Term Expected Real Rate of Return
95.0%	4.7%	1.7%
90.0%	5.7%	2.7%
85.0%	6.4%	3.4%
80.0%	6.9%	3.9%
75.0%	7.4%	4.4%
70.0%	7.8%	4.8%
50.0%	9.2%	6.2%

Based on the four-part analysis, the PMRS Board established the System's long-term expected rate of return at 7.5%.

In addition to determining the System's long-term expected rate of return, PMRS also develops a long-term expected rate of return for individual participating municipalities. The long-term expected rate of return for individual participating municipalities is also referred to as the regular interest rate. Under the laws of the Commonwealth of Pennsylvania (Act 15 of 1974), the PMRS Board is obligated to apply the regular interest rate to each of the individual participating municipalities' actuarial asset accounts held by PMRS. Therefore, under the law, the long-term expected rate of return for individual participating municipalities is equal to the regular interest rate. The rationale for the difference between the System's long-term expected rate of return and the individual participating municipalities' regular interest rate is described in the section below labeled "Discount Rate." As of December 31, 2014, this rate is equal to 5.5%.

The System's policy in regard to the investment income allocation on invested assets is established and may be amended by the PMRS Board. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of PMRS.

The long-term expected rate of return on the Combined Police Pension Plan's investments was determined using a building-block method in which best-estimate ranges of expected future real

rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class for the Combined Police Pension Plan as of December 31, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	47.0%	5.5% - 7.5%
International equity	18.0%	4.5% - 6.5%
Fixed income	33.0%	1.0% - 3.0%
Cash	2.0%	0.0% - 1.0%
	<u>100.0%</u>	

Rate of Return - The money-weighted rate of return expresses investment performance, net of investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2015, the annual money-weighted rate of return on Combined Police Pension Plan investments, net of investment expense, was 1.01%.

Discount Rate – While it is often common practice to establish an actuarial discount rate that is equal to the long-term expected rate of return, PMRS is required by law (Act 15 of 1974) to establish a discount rate equal to the regular interest rate. The PMRS Board establishes the regular interest rate on the basis of expected stable and consistent earnings on investments to be applied to the accounts of the individual participating municipalities and includes the accounts of plan participants, municipalities, and plan retirees each year. The PMRS Board considers the following five quantitative factors in establishing the regular interest rate:

1. Retiree plan liability as a percentage of total plan liability,
2. Active plan participant liability as a percentage of total plan liability,
3. Smoothed Pension Benefit Guarantee Corporation (PBGC) annuity rates,
4. PMRS System long-term expected rate of return, and
5. PMRS administrative expenses.

The regular interest rate is equal to the retiree liability percentage times the smoothed PBGC annuity rates, plus the active employee liability percentage times the System long-term expected rate of return, less administrative expenses as a percentage of assets.

The PMRS Board may then adjust the regular interest rate derived from the formula due to a variety of qualitative factors such as the desire to minimize regular interest rate volatility, trending of PBGC annuity rates, total PMRS actuarial and market value funding ratios, feedback from existing PMRS municipalities, and recommendations from the System's investment and actuarial consultants. The discount rate adopted by the PMRS Board and used to measure the individual participating municipalities' total pension liability as of December 31, 2014 was 5.5%.

This required equivalence between the regular interest rate and the actuarial discount rate will likely result in a System long-term expected rate of return that will be higher than the actuarial discount rate and higher than the long-term expected rate of return for individual participating municipalities. Should the System experience a prolonged period of investment returns in excess of the regular interest rate, the PMRS Board is authorized to allocate any applicable portion of any such excess in accordance with PMRS Board policies.

The projection of cash flows for each underlying municipal plan, used to determine if any adjustment to the discount rate was required, used the following assumptions: 1) member contributions will be made at the current contribution rate, 2) participating plan sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate, and 3) the System's long-term expected rate of return will be used in the depletion testing of the projected cash flows. Based on those assumptions, the PMRS pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

The discount rate used to measure the total pension liability as of December 31, 2015 was 8.00% for the Combined Police Pension Plan. The Combined Police Pension Plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investment was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability (Asset) Changes in the Discount Rate – The following presents the net pension liability (asset) of the Plans, calculated using the discount rate described above, as well as what the Plan's net pension liability (asset) would be if they were calculated using a discount rate that is one-percentage-point lower or higher than the current rates:

	1% Decrease (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Non-uniformed Employees'	\$ (7,091,176)	\$ (13,888,902)	\$ (19,668,063)
Firefighters'	\$ 149,255	\$ (6,879,662)	\$ (12,742,804)
	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Combined Police	\$ 26,411,709	\$ 16,696,432	\$ 8,455,501

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2015, the City recognized pension expense of \$6,353,299 in the governmental activities and \$214,327 in the business-type activities. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Governmental Activities	Business-Type Activities
<u>Deferred Outflows of Resources:</u>		
Differences between expected and actual experience	\$ 4,809,998	\$ 613,311
City contributions subsequent to measurement date	358,000	-
Changes of assumptions	3,606,049	-
Net difference between projected and actual earnings on pension plan investments	4,424,880	16,033
Total deferred outflows of resources	<u>\$ 13,198,927</u>	<u>\$ 629,344</u>
<u>Deferred Inflows of Resources:</u>		
Differences between expected and actual experience	\$ 602,922	\$ -
Net difference between projected and actual earnings on pension plan investments	208,758	-
Total deferred inflows of resources	<u>\$ 811,680</u>	<u>\$ -</u>

The effect of the differences in the City's expected and actual experience and changes of assumptions are recognized over the average expected remaining service lives of active and inactive members. The difference between the projected and actual earnings on the pension plan investments is recognized over five years. City contributions subsequent to the measurement date will be recorded as a reduction to the pension liability during the year ending December 31, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending December 31,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2016	\$ 3,408,145	\$ 208,445
2017	3,408,145	208,445
2018	3,408,144	208,445
2019	1,804,813	4,009
	<u>\$ 12,029,247</u>	<u>\$ 629,344</u>

18. OTHER POST-EMPLOYMENT BENEFITS

Plan Descriptions

In addition to the pension benefits described in Note 17, the City provides certain post-employment healthcare benefits to its retirees through one single-employer, defined benefit other post-employment benefit (OPEB) plan. However, within this one plan, there are four groups of employees with different types of benefits. A separate financial statement is not issued for the plan.

Police

Section 9 of the Basic Labor Agreement between the City of Harrisburg and the Fraternal Order of Police, Capital City Lodge No. 12, effective January 1, 2004, establishes retiree's eligibility for post-retirement life insurance and medical benefits.

Retired prior to December 31, 1991:

Benefits: The health care coverage currently includes medical, prescription drugs, dental and vision. The City would pay the cost of coverage for the retiree, including spouse and dependents, from retirement until the retiree's Medicare eligibility. If retiree dies, coverage for spouse and dependents continues until the spouse reaches Medicare eligibility. Currently, two retirees have been "grandfathered" and the City continues to pay for coverage after Medicare age.

Retire between January 1, 1992 and September 18, 2013:

Eligibility: Any officer that is eligible for the Police Pension Plan benefits

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision, and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. The City would pay the cost of coverage for medical, prescription drug, dental, and vision for the retiree, including spouse and dependents.

Retire after September 19, 2013 and hired prior to September 18, 2013:

Eligibility: Any officer that is eligible for the Police Pension Plan benefits

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision (under the same plans as active employees which may be modified to the extent that coverage is modified for active employees), and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. Retirees and their dependents shall not be eligible for post-retirement health care if the retiree or dependent has available health care coverage elsewhere at a reasonably comparable benefit level and at the same or lower cost. The City would pay the cost of coverage for medical, prescription drug, dental, and vision for the retiree less a percentage of the retiree's pension ranging from 2% to 5% until the retiree reaches Medicare age. Upon reaching Medicare age, the City will reimburse a maximum monthly amount ranging from \$250 to \$350 for a Medicare Supplement Plan.

Hired after September 18, 2013: Not eligible for post-retirement health benefits.

All police officers hired prior to January 1, 1987, and retiring subsequent to January 1, 1987, who have completed twenty (20) years of actual service may continue to participate in the City's group health insurance (including family coverage) in effect at the time of retirement as noted above provided that the retired employee or his/her spouse does not have alternative health care coverage in the following six areas: (a) physician services, (b) hospital services, (c) major medical, (d) dental, (e) vision, (f) prescription. In those areas where alternative health care coverage is available, the City is not required to provide coverage in that area.

Firefighters

Article 14, Section 2a and 2b and Article 15 of the Collective Bargaining Agreement between Local Union No. 428 of the International Association of Firefighters (AFL-CIO), effective January 1, 2006, establishes retiree's eligible for post-retirement medical and life insurance benefits, respectively.

Retired prior to December 31, 1986:

Benefits: The health care coverage currently includes medical, prescription drugs, dental and vision. The retiree would pay the cost of coverage for the retiree and his or her spouse. If the retiree dies, the spouse may continue coverage. In such case, the spouse would pay for the full cost of coverage.

Retired between January 1, 1987 and December 31, 1992:

Eligibility: Any firefighter that is eligible for the Fire Pension Plan A or Plan B benefits

Benefits: The health care coverage currently includes medical, prescription drugs, dental and vision. The City would pay the cost of coverage for the retiree. The retiree must pay for any additional coverage for his or her spouse and dependents. Upon reaching age 65, the City will provide supplemental coverage, major medical, and prescription unless prescription is provided by another agency. This benefit is for the retired firefighter only. If the retiree dies, the spouse may continue coverage, in which case the spouse would pay for the full cost of coverage.

Retire between January 1, 1993 and April 22, 2014:

Eligibility: Any firefighter that is eligible for the Fire Pension Plan A or Plan B benefits

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. The City would pay the cost of coverage for medical, prescription drug, dental, and vision for the retiree, including spouse through Medicare eligibility. Once Medicare eligible, the City will reimburse the retiree for the Medicare Part B premium. If the retiree dies, the City continues full coverage for the spouse and eligible dependents. If the firefighter dies in the line of duty, the City continues full coverage for the spouse and eligible dependents.

Retire after April 23, 2014 and hired prior to April 22, 2014:

Eligibility: Any firefighter that is eligible for the Fire Pension Plan A or Plan B benefits

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision (under the same plans as active employees which may be modified to the extent that coverage is modified for active employees), and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. Retirees and their dependents shall not be eligible for post-retirement health care if the retiree or dependent has available health care coverage elsewhere at a reasonably comparable benefit level and at the same or lower cost. The City would pay the cost of coverage for medical, prescription drug, dental, and vision for the retiree less a percentage of the retiree's pension ranging from 2% to 5% until the retiree reaches Medicare age with certain exceptions. Upon reaching Medicare age, the City will reimburse a maximum monthly amount ranging from \$250 to \$350 for a Medicare Supplement Plan. If the retiree dies, the City continues full coverage for the spouse and eligible dependents. If the firefighter dies in the line of duty, the City continues full coverage for the spouse and eligible dependents.

Hired after April 23, 2014: Not eligible for post-retirement health benefits.

Non-uniformed management employees:

An inter-office memo, distributed by the Mayor to City management employees, establishes retirees' eligibility for post-employment medical benefits.

Retire prior to August 4, 2002:

Benefits: The health care coverage currently includes medical, prescription drugs, dental and vision. The retiree would pay the full cost of coverage for the retiree and his or her spouse. If the retiree dies, the spouse may continue coverage. In such case, the spouse and any eligible dependents would pay for the full cost of coverage. Currently, one retiree has been "grandfathered" and the City continues to pay the cost of full coverage.

Retire after August 5, 2002 and hired prior to January 31, 2008:

Eligibility: Any non-uniformed management employee who is eligible for the Non-uniformed Pension Plan benefits.

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision, and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. The City would pay the cost of coverage for medical and prescription drug for the retiree and spouse. The retiree would pay for any additional coverage for eligible dependents. Retiree would pay for dental and vision coverage. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the City would pay the full medical and prescription drug premium for the spouse and the spouse would pay for coverage for any eligible dependents. Currently, there are two retirees and one active employee that are covered under the Police contract.

Retire after August 5, 2002 and hired after February 1, 2008:

Eligibility: Any non-uniformed management employee who is eligible for the Non-uniformed Pension Plan benefits.

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision, and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. The City would pay the cost of coverage for medical coverage for the retiree. The retiree would pay for any additional coverage for spouse and any eligible dependents. Retiree would pay for prescription drug, dental, and vision coverage. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the spouse and eligible dependents would pay the full cost of coverage.

Non-uniformed union employees:

Articles X, XI, and XII of the Collective Bargaining Agreement between the City and the Local 521 American Federation of State, County and Municipal Employees District Council 90, effective January 1, 2007, establish retirees' eligibility for post-retirement life insurance and medical benefits.

Retire prior to December 31, 1996:

Benefits: The health care coverage currently includes medical, prescription drugs, dental, and vision. The retiree would pay the cost of coverage for the retiree and his or her spouse and eligible dependents. If the retiree dies, the spouse may continue coverage. In such case, the spouse and any eligible dependents would pay for the full cost of coverage.

Retire between January 1, 1997 and December 31, 2001:

Benefits: The health care coverage currently includes medical, prescription drugs, dental, and vision. The City would pay fifty percent of the medical premium for single coverage. The retiree would pay the remaining fifty percent of the premium for single coverage. For any coverage other than single coverage, the retiree would pay the difference. Retiree would pay full premiums for prescription drug, dental, and vision. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the spouse and eligible dependents would pay for the full cost of coverage.

Retired between January 1, 2002 and May 30 2007, except between January 1, 2004 and April 30, 2004:

Benefits: The health care coverage currently includes medical, prescription drugs, dental, and vision. The City would pay sixty percent of the medical premium for single coverage. The retiree would pay the remaining forty percent of the premium for single coverage. For any coverage other than single coverage, the retiree would pay the difference. Retiree would pay full premiums for prescription drug, dental, and vision. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the spouse and eligible dependents would pay for the full cost of coverage.

Retired between January 1, 2004 and April 30, 2004:

Benefits: The health care coverage currently includes medical, prescription drugs, dental, and vision. The City would pay the cost of the medical coverage for the retiree. Retiree would pay for additional premiums for coverage for his or her spouse and eligible dependents. The City would pay for seventy-five percent of the coverage for prescription drug for the retiree. Retiree would pay for the remaining twenty-five percent of the coverage for prescription drug and for any additional coverage for his or her spouse and any eligible dependents. Retiree must pay for full coverage for dental and vision coverage. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the spouse and eligible dependents would pay for the full cost of coverage.

Retire between June 1, 2007 and September 18, 2013:

Eligibility: Non-uniformed union employee must be eligible for the Non-Uniformed Pension Plan benefits.

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision, and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. If the retiree has attained age 60 and completed 20 years of service, the City pays 100% of medical premium for single coverage. The City would pay the full cost single coverage for medical or a percentage thereof based on the retiree's age and years of service. If retiree is disabled after completion of 20 years of service, attained age 55 and completed 20 years of service, or attained age 65 and completed 15 years of service, the City would pay 60% of premium for single coverage. Otherwise, retiree would pay for full cost of coverage. For any coverage other than single, the retiree would pay the difference in the premiums. Retirees would pay for prescription drug, dental, and vision coverage. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the spouse and eligible dependents would pay for the full cost of coverage.

Retire between September 19, 2013 and December 31, 2014:

Eligibility: Non-uniformed union employee must be eligible for the Non-Uniformed Pension Plan benefits and satisfy the Rule of 85 Window requirements as of December 31, 2013.

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision (under the same plans as active employees which may be modified to the extent that coverage is modified for active employees), and life insurance. The City would pay

the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. If the retiree has attained age 55 as of December 31, 2013, the City pays full medical premiums for single coverage until the retiree reaches Medicare age. If the retiree has not attained age 55 as of December 31, 2013, the City pays 60% of the medical premium for single coverage until the retiree reaches Medicare age. For any coverage other than single, the retiree must pay any difference between premiums. The retiree must pay the full premium of prescription drug, dental, and vision coverage. Upon reaching Medicare age, the City will reimburse a maximum monthly amount ranging from \$250 to \$350 for a Medicare Supplement Plan.

Retire after September 19, 2013 and hired prior to September 18, 2013 (not under the Rule of 85 Window):

Eligibility: Non-uniformed union employee must be eligible for the Non-Uniformed Pension Plan benefits.

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision (under the same plans as active employees which may be modified to the extent that coverage is modified for active employees), and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. If retiree has attained age 60 and completed 20 years of service, the retiree shall pay an amount equal to the amount which the employee would pay for individual coverage as of the date of retirement. The City pays 60% of the cost of health insurance for employees retiring on or after January 1, 2002 with 20 or more years of service or at least 15 years of service at age 65. Upon reaching Medicare eligibility, the retiree shall be eligible only for Medicare supplement reimbursement schedule. Otherwise, the retiree would pay 100% of the medical premium for single coverage. For any coverage other than single, the retiree must pay any difference between the premiums. Retirees must pay full premium for prescription drug, dental, and vision coverage. Upon reaching Medicare age, the City will reimburse a maximum monthly amount ranging from \$250 to \$350 for a Medicare Supplement Plan. Retirees and their dependents shall not be eligible for post-retirement health care if the retiree or dependent has available health care coverage elsewhere at a reasonably comparable benefit level and at the same or lower cost.

Hired after September 18, 2013: Not eligible for post-retirement health benefits.

Funding Policy and Annual OPEB Costs

The City's contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2015, the City contributed \$5,653,446 to the OPEB Plan.

The City has opted to not fully fund the OPEB contributions and will continue to fund the annual OPEB costs on a pay-as-you-go basis.

The City pays the cost of coverage for the police, fire, non-uniform management, and non-uniform union retirees (including dependents) based on the various criteria described above.

The City's annual OPEB costs are calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is

projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of the valuation and on the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculation. The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Information as of the latest actuarial valuation follows:

Valuation date	1/1/2014
Actuarial cost method	Entry age normal, level dollar
Actuarial assumptions	
Interest rate	4.5%
Salary increases	5.0%
Amortization period	30 year open period
Healthcare cost trend rate	6.5% in 2014, decreasing by .5% per year to 5.5% in 2016, rates gradually decrease from 5.3% in 2017 to 4.2% in 2089

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB costs and net OPEB obligations to the Plan for the year ended December 31, 2015 were as follows:

	Governmental Activities	Business-type Activities	Total
Annual required contribution	\$ 9,977,307	\$ 246,667	\$ 10,223,974
Interest on net OPEB obligation	3,222,222	82,210	3,304,432
Adjustment to ARC	(4,395,935)	(112,155)	(4,508,090)
Annual OPEB cost	8,803,594	216,722	9,020,316
Contribution made	(5,530,623)	(122,823)	(5,653,446)
Change in Net OPEB Obligation	3,272,971	93,899	3,366,870
Net OPEB Obligation, beginning	71,980,093	1,410,753	73,390,846
Net OPEB Obligation, ending	<u>\$ 75,253,064</u>	<u>\$ 1,504,652</u>	<u>\$ 76,757,716</u>

During the year ended December 31, 2013, sewer operations were transferred to CRW and the sewer fund was eliminated. While the City still retains the OPEB liability for sewer retirees, through the shared services agreement, CRW has agreed to reimburse the City for these costs. Therefore, the OPEB liability for sewer retirees has been transferred to governmental activities, with a related amount due from CRW.

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2015	\$ 9,020,316	62.67%	\$ 76,757,716
2014	9,076,141	59.22%	73,390,846
2013	15,255,164	31.42%	69,689,971

Funded Status and Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2014	\$ -	\$ 133,006,585	\$ 133,006,585	0.00%	\$ 18,893,017	704.00%

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

19. ACCUMULATED DEFICITS

Redevelopment Authority of the City of Harrisburg

The Redevelopment Authority's net position (deficit) at December 31, 2015 is related to the 1998 Series A and B bond issuances. Since the right to building is recorded at amortized cost and the debt includes appreciation, the total debt outstanding, less the asset's amortized cost, reduces net position. The outstanding debt on these issuances is \$61,725,245 and the amortized cost of the right to building is \$20,369,411. These balances reduced the Redevelopment Authority's net position from a positive \$11,559,837 to the deficit balance of \$29,795,997. The City guarantees the payment of those bond issuances. In addition, the Redevelopment Authority will gain title to certain buildings in the year 2016 in relation to the issuance of these bonds. See Note 11 regarding the City's guarantee obligation.

20. FINANCIAL RECOVERY PLAN

For several years, the City had been exploring various options to close its structural budget gap and address its Resource Recovery Facility debt issue. In 2008, the City applied for and was awarded a \$100,000 Pennsylvania Department of Community and Economic Development Act 47 Early Intervention Program Grant to develop a Management and Financial Audit and Five-Year Financial Plan. During 2009, the City hired a national management consulting firm to conduct a thorough review of the City's finances and operations and to develop the Plan. An Emergency Financial Plan and Five-Year Plan (Plan) was issued in March 2010 and implementation immediately began. Due to City Council's failure to adopt the Plan, the Administration filed a Petition for Determination of Municipal Financial Distress on October 1, 2010 under Pennsylvania's Municipalities Financial Recovery Act of 1987 (Act 47). The City was accepted into the Act 47 program on December 15, 2010. The Act 47 program allowed the City to obtain assistance from the Commonwealth of Pennsylvania in developing a new financial recovery plan. A Municipal Financial Recovery Act Recovery Plan (Recovery Plan) was submitted by the Act 47 coordinator to the City on June 13, 2011. City Council rejected the Recovery Plan in July 2011. Immediately thereafter, and pursuant to Act 47, the Mayor became the Act 47 coordinator. As such, she developed her own Plan and submitted it to City Council on August 2, 2011. City Council rejected this second Plan on August 31, 2011. The Mayor submitted an amended version of her Plan to City Council, but Council rejected this amended Plan on September 13, 2011.

Pennsylvania's governor signed legislation on October 20, 2011 authorizing the State to declare a fiscal emergency in Harrisburg. On November 18, 2011, a Receiver was appointed under this legislation to implement a preliminary Recovery Plan and take control of the City's finances. The Receiver unveiled his Recovery Plan for the City on February 6, 2012. The full Recovery Plan and subsequent status reports related thereto can be viewed at <http://dced.pa.gov/download/harrisburg-strong-plan-pdf/?wpdmdl=57498>. The Recovery Plan was approved by the Commonwealth Court on March 9, 2012.

In the Recovery Plan, the Receiver indicated that the City's financial distress is a very complicated problem. He further indicated that it cannot be solved easily or quickly. He identified three primary challenges to be addressed in connection with the fiscal recovery of the City: first, the extraordinary amount of debt related to CRW's Resource Recovery Facility (Incinerator) which the City guaranteed; second, the City's structural budget deficit (the amount by which the City's operating expenditures consistently exceed its revenues); and third, filling of the Business

Administrator/Chief of Staff position (termed Chief Operating Officer in the Plan) which had been vacant since January 2011, to lead and manage the entire staff and oversee the implementation of the Receiver's Recovery Plan Initiatives.

To address the burden of the Incinerator debt, the Receiver called for the possible sale and/or long-term lease of the Incinerator and separate parking facilities owned and operated by the Authority. The Recovery Plan also assumed the potential for so called "stranded debt" (the amount of debt remaining after the proceeds of the sale or lease of assets was applied to the Incinerator debt) and set forth contributions to be made by various stakeholders. Since the contributions required from stakeholders could not be determined until the value of the assets was known, CRW and the Authority were directed to participate in a Request for Qualifications and Proposals (RFQ&P) process to determine interested parties with respect to two sets of assets: the Incinerator and parking facilities. Unrelated to the Incinerator debt problem, CRW was also directed to undertake an RFQ&P process for management and operation of its water and wastewater assets.

With these processes, the Receiver, with the advice of the relevant entity, would then be in a position to negotiate with one or more offerors and, ultimately, with the various stakeholders regarding any stranded debt or other issues related to the asset transactions. Both entities have since undertaken these processes. The Receiver was authorized under Act 47 to proceed with all transactions related to the assets of the City and the entities, and to cause the sale, lease, conveyance, assignment or other use or disposition of those assets.

To address the City's structural budget deficit, an annual gap in excess of \$11 million as estimated by the Receiver, the Recovery Plan called for a combination of concessions from the labor unions, an increase in the resident Earned income Tax (EIT), service efficiencies, and additional revenues from fees and outside sources. During October 2012, City Council approved a 1% increase in the EIT effective January 1, 2013, and an Act 47 grant funded fee study was completed, with certain of the study's proposed fee increases being considered for approval by City Council in 2013.

Having achieved a comprehensive solution indicating consensual agreements with stakeholders, the Receiver filed a modified recovery plan with the Commonwealth Court on August 26, 2013 entitled the "Harrisburg Strong Plan." In the days leading to this filing, City Council took action on various issues related to the sale of the Incinerator, Parking System monetization, earned income tax rate extension through 2016, and Fraternal Order of Police (FOP) and American Federation of State, County and Municipal Employees (AFSCME) labor contracts concession amendments.

A hearing was held before the Court on September 19, 2013, at which counsel for the Mayor, City Council, Dauphin County, Assured Guaranty Municipal Assurance Corporation (AGM), and the suburban communities all stated support for the Harrisburg Strong Plan. On September 23, 2013, the Court issued an Order confirming the Harrisburg Strong Plan and directed its implementation in accordance with the terms of the Plan.

The ultimate outcome of the City's Harrisburg Strong Plan is subject to significant uncertainty. As of March 1, 2014, the City is no longer in receivership.

21. COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services.

Federal and State

Under the terms of federal and state grants, periodic audits and compliance reviews are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits and compliance reviews could lead to reimbursement to the grantor agencies.

Construction Commitments

Primary Government

At December 31, 2015, the City has a contractual commitment for projects of approximately \$3,372,834.

Transfer and Transition Agreement and Shared Services Agreement

In November 2013, the City and CRW entered into a transfer agreement related to the Sewer Collection System (transfer agreement) and a transition agreement related to the Water, Wastewater, and Stormwater Systems (transition agreement). In conjunction with the transfer and transition agreements, the City and CRW entered into a shared services agreement whereby the City agreed to perform certain services with respect to and for the benefit of the water system and combined sewer system and CRW agreed to perform certain services with respect to and for the benefit of the City's sanitation fund, Green Infrastructure Projects, and other initiatives. The services performed by the City under the shared services agreement relate to payment processing services, information technology services, operations and revenue services, and public works services. The services performed by CRW under the shared services agreement include revenue billing and collection functions for the City's sanitation fund including the implementation of a lockbox system. As of April 2015, CRW opened their own office for billing and collections and no longer used any of the City's information technology services or operations and revenue services. Each of these services, including the term of the services, is detailed in a shared services schedule incorporated into the shared services agreement.

The City and CRW, in advance of performing the services, are to prepare a budget for the total cost of the services and the total cost is to be agreed upon by both parties. Within 60 days after the end of the term of each shared service, the City and CRW are to reconcile the actual costs of providing the services to the budgeted costs. Payments due to either the City or CRW are payable within 30 days of the finalization of the reconciliation. During the year ended December 31, 2015, the City and CRW were billed based on budgeted expenditures and certain receivables and payables have been recorded based on these budgeted amounts. A reconciliation based on actual cost incurred is still being negotiated and any changes will be made prospectively.

Component Units

Harrisburg Downtown Improvement District, Inc.

A contract effective January 1, 2011 and ending December 31, 2013, was entered into with ABM Janitorial Services to provide all services and labor necessary to commence and complete a

cleaning program with the District. The vendor will be compensated on a cost plus basis not to exceed \$302,512 annually. Hourly wage rates, supplies, equipment expenses, and other costs are detailed in the proposal. A 12-month extension was agreed upon in December 2015 to continue through December 2016 with subsequent 12-month extensions.

Guarantees

The City is contingently liable under various agreements which guarantee debt of entities not included in the primary government's financial statements aggregating \$62,302,236 at December 31, 2015, and maturing at various dates through 2033. Of the \$62,302,236, \$61,725,245 is for guarantees of component unit debt. Information regarding the component unit debt guarantees is discussed in Note 11.

The City also guarantees the HDC Lease Revenue Bonds, Series of 1992, which have a balance at December 31, 2015 of \$576,991. Principal payments are due through 2016. As of December 31, 2015, no amounts were paid by the City to HDC under the guarantee. With respect to the recovery of payments under the guarantee, if any, the matter is being evaluated in relation to the forbearance agreement executed in 2015 relating to the Verizon Tower build out.

22. COMPLIANCE

Primary Government

Management of the City believes that the City has complied, in all material respects, with all applicable finance related legal and contractual provisions including applicable covenants of bond indentures, except as noted below.

The City has issued multiple notices of material events with EMMA with respect to its inability to make required debt service payments with respect to the City's General Obligation Refunding Bonds and Notes, Series D and F of 1997 for the years ended December 31, 2012, 2013, 2014, 2015, and 2016.

23. LITIGATION

The City and its component units are involved in several lawsuits. Management of each entity believes that none of the litigation outstanding against the City or its component units will have a material adverse effect on the financial position of the City or its component units at December 31, 2015. The City has accrued for such cases that it believes are estimable and probable.

Primary Government

A number of contractors that provided construction services to the developer of the Capital View Commerce Center (CVCC Project) have asserted claims against the City and a financial institution (Bank), both of which were involved in financing for the CVCC Project. Plaintiff contractors claim that they have not been paid by the developer of the CVCC Project and that, on a variety of legal theories, they are entitled to payment directly by the City and the Bank. The City has asserted preliminary objections to the contractors' claims, including that the Court lacks jurisdiction and that the claims asserted by the plaintiff contractors have no legal merit. The City's preliminary objections have been briefed and argued to the Court, which has not indicated when it

will render its decision. At this point, the City is unable to state whether an outcome unfavorable to the City is either probable or remote, nor is the City able to estimate the amount or range of loss, if any, in the event of an unfavorable outcome.

A paving contractor that performed a major street paving project for the City in 2008 is seeking damages in the form of a price escalation clause that they allege was incorporated into the contract. The City has taken the position that the contractor was bound to the prices included in their bid, and that there was no price escalation clause in the contract. The City has responded to the plaintiff's requests for discovery. The plaintiff filed a motion for summary judgment, to which the City filed a response. The Court ruled in the City's favor denying the plaintiff's motion for summary judgment by Order of Court dated May 19, 2011. Because of the bankruptcy filing of City Council in October 2011, and subsequently due to the confirmation of a Receiver, the contractor and the City agreed to a temporary stay in this case until September 2012. Since September, the plaintiff has made no attempt to lift the stay. The City has and will continue to vigorously defend this lawsuit and believes it is reasonably possible that the City will prevail. This case amounts to approximately \$250,000.

The United States Environmental Protection Agency (EPA) had issued an order against the City under the Clean Water Act requiring the City to provide certain information in response to EPA inquiries into the issues involving what were the City's combined sewer overflows and its municipal separate storm water system program. The EPA considered the City to be in violation of the Clean Water Act and other regulatory mandates. The City, CRW, the EPA, and the Pennsylvania Department of Environmental Protection have entered into a Partial Settlement Agreement of those claims, which has been lodged in the U.S. District Court for the Middle District of Pennsylvania, wherein the City is not required to pay any federal or state fines or penalties. This matter remains an open Consent Decree.

An extraordinary series of holes in the street and on the private property of homeowners suddenly appeared in the City starting in February 2014. Issues of liability for a utility collapse/water main break versus other causes of these events are the subject of engineering reviews and analysis. Projected restoration costs of the street and abatement of the underlying fissures stand in excess of \$4 million for long-term remediation. The City has undertaken a voluntary attempt to secure additional financial assistance to aid property owners; funding the substantial cost of acquisition, remediation, demolition, and relocation of private home owners.

The City cannot presently estimate its actual risks, though one homeowner forwarded a notice of claim for unspecified damages, while issues of liability are still reviewed. The City has undertaken limited remedial measures and remains a part of a joint process seeking federal and state funds to address longer term solutions, including potential acquisition or assistance for demolition of private owned structures on site. While there is no immediate fiscal exposure, the situation is being monitored by the City for additional sinkhole activity.

24. SUBSEQUENT EVENTS

Subsequent events with respect to material event notices with EMMA, debt related items, and receivership and financial recovery plan are included in the respective notes.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

In December 2015, City Council approved a tax anticipation note in the amount of \$4,500,000, bearing interest at a fixed rate of 1.86 percent, and maturing on June 30, 2016. The City has not drawn against this note as of the date of this report.

In February 2016, City Council approved amendments to the Firefighter Pension Plan administered by PMRS.

In April 2016, City Council authorized the increase of the local services tax for the 2016 tax year and thereafter from \$52 to \$156 per year.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARRISBURG, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULE
BUDGETARY (NON-GAAP) BASIS - GENERAL FUND
YEAR ENDED DECEMBER 31, 2015
REQUIRED SUPPLEMENTARY INFORMATION

	Budget		Variance of Original with Final Budget Positive (Negative)	Actual Amounts	Variance of Actual with Final Budget Positive (Negative)
	Original Amounts	Final Amounts			
Revenues					
Taxes	\$ 37,604,337	\$ 37,604,337	\$ -	\$ 37,341,776	\$ (262,561)
Licenses and permits	576,000	576,000	-	593,939	17,939
Intergovernmental revenue	4,018,137	4,018,137	-	2,742,203	(1,275,934)
Departmental earnings	7,123,150	7,714,843	591,693	4,604,563	(3,110,280)
Fines and forfeits	1,985,000	1,985,000	-	1,504,268	(480,732)
Investment income	96,814	96,814	-	88,687	(8,127)
Miscellaneous	1,534,000	1,814,000	280,000	3,164,916	1,350,916
Total revenues	52,937,438	53,809,131	871,693	50,040,352	(3,768,779)
Expenditures					
General government					
Elected and appointed offices					
City Council	458,095	458,095	-	411,255	46,840
Mayor	311,160	311,160	-	307,491	3,669
City Controller	160,482	160,482	-	144,630	15,852
City Treasurer	388,382	388,382	-	297,740	90,642
City Solicitor	583,258	683,259	(100,001)	547,707	135,552
Total elected and appointed offices	1,901,377	2,001,378	(100,001)	1,708,823	292,555
Office of administration					
Administration	2,577,625	2,523,625	54,000	1,958,181	565,444
General expenditures	13,354,078	14,428,002	(1,073,924)	27,348,432	(12,920,430)
Total general government	17,833,080	18,953,005	(1,119,925)	31,015,436	(12,062,431)
Community and economic development	877,735	912,735	(35,000)	678,390	234,345
Public safety	24,209,181	24,470,185	(261,004)	23,978,285	491,900
Public works	7,986,662	7,996,194	(9,532)	6,179,935	1,816,259
Total expenditures	50,906,658	52,332,119	(1,425,461)	61,852,046	(9,519,927)
Excess of revenues over (under) expenditures before other financing sources (uses)	2,030,780	1,477,012	(553,768)	(11,811,694)	(13,288,706)
Other financing sources (uses)					
Sale of general capital assets	-	-	-	249,935	249,935
Transfers in	6,253,261	6,503,261	250,000	1,758,219	(4,745,042)
Transfers out	(8,523,230)	(8,610,889)	(87,659)	(8,608,230)	2,659
Total other financing sources (uses)	(2,269,969)	(2,107,628)	162,341	(6,600,076)	(4,492,448)
Net change in fund balance	(239,189)	(630,616)	(391,427)	(18,411,770)	(17,781,154)
Fund balance - beginning of year, budgetary basis	280,000	654,925	374,925	36,801,407	36,146,482
Fund balance - end of year, budgetary basis	\$ 40,811	\$ 24,309	\$ (16,502)	\$ 18,389,637	\$ 18,365,328

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON
SCHEDULE
YEAR ENDED DECEMBER 31, 2015
REQUIRED SUPPLEMENTARY INFORMATION

1. BUDGETARY DATA

Annual budgets are legally adopted for the General Fund, Debt Service Fund, Sanitation Fund (neighborhood services), Incinerator Fund, and the following nonmajor governmental funds: State Liquid Fuels Tax Fund, Host Municipality Fees Fund, Blight Remediation Fund, Special Events Fund, Fire Protection Fund, Police Protection Fund, Parks and Recreation Fund, and WHBG-TV Fund. Budgets for governmental funds are prepared on a cash basis with respect to revenue and on an items vouchered basis with respect to expenditures. Specific funds exempted from legally adopted budgetary requirements include:

- Grant Programs Fund
- Capital Projects Fund
- Parks and Property Improvement Fund (nonmajor governmental fund)
- Harrisburg Senators Fund

Over 30 different grant programs, which are accounted for in the Grant Programs Fund, are administered under project budgets determined by contracts with state and federal grantor agencies. Effective expenditure control is achieved in the Capital Projects Fund through debt provisions and supplemental appropriations of City Council. Control over spending in the Parks and Property Improvement Fund (a nonmajor fund) is achieved by the use of internal spending limits.

The actual results of operations presented in accordance with accounting principles generally accepted in the United States of America differ from the budgetary basis used in preparation of the 2015 budget for governmental funds. The budget for the General Fund was prepared on a cash basis with respect to revenue and on an item voucher basis with respect to expenditures. For the purpose of preparing the Budgetary Comparison Schedule – Budgetary (Non-GAAP) Basis – General Fund, the actual results of operations have been presented on a budgetary basis consistent with the City's budgeted revenues and expenditures.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON
SCHEDULE
YEAR ENDED DECEMBER 31, 2015
REQUIRED SUPPLEMENTARY INFORMATION

A reconciliation of the differences between the budgetary basis and GAAP basis financial statements of the General Fund is as follows:

	Fund Balance, Beginning of Year	Revenues	Expenditures	Financing Sources (Uses) and Special Items	Fund Balance, End of Year
Budgetary basis	\$ 36,801,407	\$ 50,040,352	\$ (61,852,046)	\$ (6,600,076)	\$ 18,389,637
Taxes receivable	12,007,999	521,677	-	-	12,529,676
Other assets	12,682,205	6,811,877	806,047	(205,284)	20,094,845
Accounts payable, net of items vouchered	(2,654,078)	-	216,007	-	(2,438,071)
Accrued liabilities	(1,489,394)	-	791,057	-	(698,337)
Advances and amounts due to other funds and component units	(13,140,381)	(482,666)	12,342,568	-	(1,280,479)
Unearned and unavailable revenue	(17,447,629)	(2,036,193)	-	-	(19,483,822)
Other	1,863	(5,896,749)	538,797	5,356,089	-
GAAP basis	<u>\$ 26,761,992</u>	<u>\$ 48,958,298</u>	<u>\$ (47,157,570)</u>	<u>\$ (1,449,271)</u>	<u>\$ 27,113,449</u>

2. BUDGET TO ACTUAL COMPARISONS

The General Fund's budget comparison is presented in the Required Supplementary Information section. The State Liquid Fuels Tax Fund (a nonmajor fund), major debt service fund, and Host Municipality Fees Fund (nonmajor fund) budget comparisons are presented in the combining section. On the bottom of these comparisons is a demonstration of the adjustments necessary to reconcile to the GAAP change in fund balance.

3. COMPLIANCE

Because the legal level of budgetary control is so detailed that it is not practical to demonstrate compliance within this document, the City has prepared a separate budgetary report to demonstrate compliance at the line item level. However, there were seventeen instances where the City' exceeded the budgeted expenditure amount on a line item level.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF CHANGES IN THE NET PENSION ASSET AND
RELATED RATIOS - NON-UNIFORMED EMPLOYEES' PENSION PLAN
YEAR ENDED DECEMBER 31, *
REQUIRED SUPPLEMENTARY INFORMATION

	2015
Total Pension Liability	
Service cost	\$ 1,126,817
Interest	2,971,992
Benefit payments, including refunds of member contributions	(4,075,097)
Differences between expected and actual experience	6,989,303
Transfers	(3,135,289)
Net Changes in Total Pension Liability	3,877,726
Total Pension Liability - Beginning	56,466,339
Total Pension Liability - Ending (a)	<u>\$ 60,344,065</u>
Plan Fiduciary Net Position:	
Contributions - employer	\$ 14,004
Contributions - plan member	199,463
Investment income	3,833,485
Benefit payments, including refunds of member contributions	(4,075,097)
Administrative expense	(155,705)
Transfers	(3,135,317)
Net Change in Plan Fiduciary Net Position	(3,319,167)
Plan Fiduciary Net Position - Beginning	77,552,134
Plan Fiduciary Net Position - Ending (b)	<u>\$ 74,232,967</u>
Net Pension Asset - Ending (a-b)	<u>\$ (13,888,902)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>123.02%</u>
Covered Employee Payroll	<u>\$ 6,497,415</u>
Net Pension Asset as a Percentage of Covered Employee Payroll	-213.76%

* The amounts presented for each fiscal year were determined as of the measurement date, which is December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension information.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF CHANGES IN THE NET PENSION ASSET AND
RELATED RATIOS - FIREFIGHTERS' PENSION PLAN
YEAR ENDED DECEMBER 31, *
REQUIRED SUPPLEMENTARY INFORMATION

	2015
Total Pension Liability	
Service cost	\$ 1,325,049
Interest	3,536,047
Benefit payments, including refunds of member contributions	(3,614,868)
Differences between expected and actual experience	241,776
Net Changes in Total Pension Liability	1,488,004
Total Pension Liability - Beginning	64,749,958
Total Pension Liability - Ending (a)	<u>\$ 66,237,962</u>
Plan Fiduciary Net Position:	
Contributions - employer	\$ 22,130
Contributions - plan member	226,360
Investment income	4,191,372
Benefit payments, including refunds of member contributions	(3,614,868)
Administrative expense	(154,993)
Net Change in Plan Fiduciary Net Position	670,001
Plan Fiduciary Net Position - Beginning	72,447,623
Plan Fiduciary Net Position - Ending (b)	<u>\$ 73,117,624</u>
Net Pension Asset - Ending (a-b)	<u>\$ (6,879,662)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>110.39%</u>
Covered Employee Payroll	<u>\$ 6,703,314</u>
Net Pension Asset as a Percentage of Covered Employee Payroll	-102.63%

* The amounts presented for each fiscal year were determined as of the measurement date, which is December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension information.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND
RELATED RATIOS - COMBINED POLICE PENSION PLAN
YEAR ENDED DECEMBER 31, *
REQUIRED SUPPLEMENTARY INFORMATION

	2015	2014
Total Pension Liability:		
Service cost	\$ 1,490,190	\$ 1,542,107
Interest	6,895,688	6,403,162
Differences between expected and actual experience	(753,653)	-
Changes of assumptions	4,507,561	-
Benefit payments, including refunds of member contributions	(5,630,072)	(5,351,314)
Net Changes in Total Pension Liability	6,509,714	2,593,955
Total Pension Liability - Beginning	83,767,036	81,173,081
Total Pension Liability - Ending (a)	\$ 90,276,750	\$ 83,767,036
Plan Fiduciary Net Position:		
Contributions - employer	\$ 2,972,450	\$ 2,424,298
Contributions - plan member	462,539	478,549
Investment income	586,944	4,082,703
Benefit payments, including refunds of member contributions	(5,630,072)	(5,351,314)
Administrative expense	(48,790)	(58,924)
Net Change in Plan Fiduciary Net Position	(1,656,929)	1,575,312
Plan Fiduciary Net Position - Beginning	75,237,247	73,661,935
Plan Fiduciary Net Position - Ending (b)	\$ 73,580,318	\$ 75,237,247
Net Pension Liability - Ending (a-b)	\$ 16,696,432	\$ 8,529,789
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.51%	89.82%
Covered Employee Payroll	\$ 9,923,769	\$ 9,363,263
Net Pension Liability as a Percentage of Covered Employee Payroll	168.25%	91.10%

* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension information.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULES OF CITY CONTRIBUTIONS
NON-UNIFORMED EMPLOYEES' AND FIREFIGHTERS' PENSION PLANS
YEAR ENDED DECEMBER 31, *
REQUIRED SUPPLEMENTARY INFORMATION

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
NON-UNIFORMED EMPLOYEES' PENSION PLAN:										
<u>Schedule of City Contributions</u>										
Actuarially determined contribution under Act 205	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	14,004	-	-	-	-	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ (14,004)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 6,497,415</u>									
Contributions as a percentage of covered employee payroll	0.22%									
FIREFIGHTERS' PENSION PLAN:										
<u>Schedule of City Contributions</u>										
Actuarially determined contribution under Act 205	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 834	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	22,130	-	-	-	-	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ (22,130)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 834</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 6,703,314</u>									
Contributions as a percentage of covered employee payroll	0.33%									

* The amounts presented for each fiscal year were determined as of the measurement date, which is the December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension information.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS
COMBINED POLICE PENSION PLAN
YEAR ENDED DECEMBER 31, *
REQUIRED SUPPLEMENTARY INFORMATION

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
COMBINED POLICE PENSION PLAN:										
Schedule of City Contributions										
Actuarially determined contribution under Act 205	\$ 2,972,450	\$ 2,034,070	\$ 2,146,827	\$ 1,517,751	\$ 1,551,579	\$ 314,094	\$ 275,869	\$ 285,274	\$ 523,803	\$ 512,593
Contributions in relation to the actuarially determined contributions	2,972,450	2,424,298	2,594,752	2,524,734	4,510,723	314,094	275,869	285,274	523,803	512,593
Contribution deficiency (excess)	\$ -	\$ (390,228)	\$ (447,925)	\$ (1,006,983)	\$ (2,959,144)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 9,923,769	\$ 9,363,263	\$ 10,240,017	\$ 10,358,429	\$ 10,250,723	\$ 9,650,596	\$ 9,524,752	\$ 9,137,927	\$ 9,453,063	\$ 9,417,427
Contributions as a percentage of covered employee payroll	29.95%	25.89%	25.34%	24.37%	44.00%	3.25%	2.90%	3.12%	5.54%	5.44%
Investment Returns										
Annual money-weighted rate of return, net of investment expense	1.01%	6.05%	15.30%							

* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension information.

CITY OF HARRISBURG, PENNSYLVANIA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION INFORMATION
YEAR ENDED DECEMBER 31, 2015
REQUIRED SUPPLEMENTARY INFORMATION

1. ACTUARIAL METHODS AND ASSUMPTIONS

Methods and assumptions used to determine the contribution rates required under Act 205 for the year ended December 31, 2014 (presented as the subsequent year on the preceding schedules) are as follows:

	Non-uniformed Employees' and Firefighters'
Valuation date	1/1/2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Amortization period	Based on periods in Act 205
Asset valuation method	Based on the municipal reserves
Actuarial assumptions:	
Investment rate of return	5.5%
Projected salary increases	Age related scale with merit and inflation component
Underlying inflation rate	3.0%
Cost-of-living adjustment	3.0%
Pre-retirement mortality	Males: RP 2000 with 1 year setback Females: RP 2000 with 5 year setback
Post-retirement mortality	Males and females: Sex distinct RP 2000 Combined Healthy Mortality

CITY OF HARRISBURG, PENNSYLVANIA**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION INFORMATION****YEAR ENDED DECEMBER 31, 2015****REQUIRED SUPPLEMENTARY INFORMATION**

The information presented in the required supplementary information was determined as part of the actuarial valuations at the dates indicated. Methods and assumptions used to determine contribution rates required under Act 205 for the year ended December 31, 2015 are as follows:

	<u>Combined Police</u>
Actuarial valuation date	1/1/2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	11 years
Asset valuation method	Smoothed value with a corridor of 80% to 120% of market value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Underlying inflation rate	3.0%
UP 1984 mortality table	

Change in Actuarial Assumption

In the January 1, 2015 actuarial valuation, the mortality table was updated from the UP 1984 Table to the RP-2000 Table for Males and Females.

CITY OF HARRISBURG, PENNSYLVANIA
OTHER POST-EMPLOYMENT BENEFIT PLAN
REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress 01/01/08-01/01/14

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (FAAL) (b-a)	(d) Funded Ratio (a/b)	(e) Covered Payroll	UAAL as a Percentage of Covered Payroll (c/e)
01/01/08	\$ -	\$ 184,123,955	\$ 184,123,955	0.00 %	\$ 29,200,000	630.56 %
01/01/10	-	177,796,013	177,796,013	0.00	28,435,550	625.26
01/01/12	*	148,055,171	148,055,171	0.00	23,361,420	633.76
01/01/14	-	133,006,585	133,006,585	0.00	18,893,017	704.00

* - revised for removal of active sewer employees from the City's employee base and revision of policies during the year ended December 31, 2013

Schedule of Required Employer Contributions 2008-2015

Year Ended December 31	(f) Annual Required Contribution (ARC)	Actuarial Valuation Date Basis for ARC	(g) Employer Contribution	Percentage Contribution (g/f)
2008	\$ 17,836,610	01/01/08	\$ 4,533,440	25.42%
2009	17,840,403	01/01/08	4,982,199	27.93%
2010	16,475,883	01/01/10	4,257,094	25.84%
2011	16,445,618	01/01/10	4,697,333	28.56%
2012	15,654,748	01/01/12	4,476,131	28.59%
2013	16,194,677	01/01/12	4,783,417	29.54%
2014	10,216,593	01/01/14	5,375,266	52.61%
2015	10,223,974	01/01/14	5,653,446	55.30%

**SUPPLEMENTARY INFORMATION
COMBINING AND INDIVIDUAL NONMAJOR FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF HARRISBURG, PENNSYLVANIA
DESCRIPTION OF FUNDS
NONMAJOR GOVERNMENTAL FUNDS

State Liquid Fuels Tax Fund

The State Liquid Fuels Tax Fund is used to account for state aid revenue used primarily for building and improving City roads and bridges in accordance with policies and procedures of the County Liquid Fuels Tax Act of 1981 and Liquid Fuels Act 655.

Host Municipality Fees Fund

The Host Municipality Fees Fund is used to account for \$1 per ton of municipal waste processed inside the host municipality limits. The fee is restricted for environmental related purposes.

Parks and Property Improvement Fund

The Parks and Property Improvement Fund is used to account for contributions that have been restricted for improvements to specific parks and properties in the City.

Blight Remediation Fund

The Blight Remediation Fund is used to account for the collection of fee revenue and related expenditures of the City as they pertain to enforcement of ordinances regulating blight and local health, housing and safety codes and regulations, including expense related to remediation of blighted conditions, as authorized.

Special Events Fund

The Special Events Fund is used to account for fees, service provision chargebacks, and contribution revenue, along with related expenditures, for use in the maintenance and betterment of the City's public works department.

Fire Protection Fund

The Fire Protection Fund is used to account for fees and contribution and grant revenue, along with related expenditures, for use in the maintenance and betterment of the City's fire department and activities.

Police Protection Fund

The Police Protection Fund is used to account for fees and contribution and grant revenue, along with related expenditures, for use in the maintenance and betterment of the City's police department and activities.

Parks and Recreation Fund

The Parks and Recreation Fund is used to account for fees and contributions and grant revenue, along with related expenditures for the use in the maintenance and betterment of the City's parks and recreation bureau, activities and programming.

WHBG-TV Fund

The WHBG-TV Fund is used to account for fees, contribution, advertising, and grant revenue, along with related expenditures, for use in the maintenance and betterment of the City's government access cable television channel and station.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the acquisition, construction, or improvement of major capital facilities (other than those financed by proprietary funds).

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	Special Revenue										Total Nonmajor Governmental Funds
	State Liquid Fuels Tax Fund	Host Municipality Fees Fund	Parks and Property Improvement Fund	Blight Remediation	Special Events	Fire Protection	Police Protection	Parks and Recreation	WHBG-TV	Capital Projects	
ASSETS											
Cash and cash equivalents	\$ 2,921	\$ 455,589	\$ -	\$ 163,772	\$ 27,753	\$ 131,075	\$ 341,241	\$ 268,384	\$ 10,636	\$ -	\$ 1,401,371
Investments, at fair value	940,853	-	176,629	-	-	-	-	-	-	1,175,804	2,293,286
Receivables, net of allowance for uncollectible accounts											
Taxes	-	-	-	-	-	-	-	-	-	64,498	64,498
Other	-	80,520	-	-	-	-	-	-	-	16,413	96,933
Due from other funds	3,130	-	77	-	-	-	-	-	-	305,998	309,205
Restricted assets											
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	3,967,143	3,967,143
Total assets	<u>\$ 946,904</u>	<u>\$ 536,109</u>	<u>\$ 176,706</u>	<u>\$ 163,772</u>	<u>\$ 27,753</u>	<u>\$ 131,075</u>	<u>\$ 341,241</u>	<u>\$ 268,384</u>	<u>\$ 10,636</u>	<u>\$ 5,529,856</u>	<u>\$ 8,132,436</u>
LIABILITIES AND FUND BALANCE											
Liabilities											
Accounts payable	\$ 86,621	\$ 16,127	\$ 170	\$ -	\$ -	\$ -	\$ -	\$ 9,030	\$ -	\$ 589,872	\$ 701,820
Accrued liabilities	-	1,876	-	-	-	-	-	158	-	-	2,034
Due to other funds	-	-	76,740	-	-	-	-	-	-	964,788	1,041,528
Unearned revenue	-	-	-	-	-	-	139,572	-	-	-	139,572
Total liabilities	<u>86,621</u>	<u>18,003</u>	<u>76,910</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>139,572</u>	<u>9,188</u>	<u>-</u>	<u>1,554,660</u>	<u>1,884,954</u>
Fund balance											
Restricted for											
General government	-	-	-	-	-	-	-	-	10,636	-	10,636
Environment	-	518,106	-	-	-	-	-	-	-	-	518,106
Public works	860,283	-	-	-	27,753	-	-	-	-	-	888,036
Public safety	-	-	-	163,772	-	131,075	201,669	-	-	-	496,516
Community and economic development	-	-	99,796	-	-	-	-	259,196	-	-	358,992
Tourism	-	-	-	-	-	-	-	-	-	1,113,387	1,113,387
Capital projects	-	-	-	-	-	-	-	-	-	2,861,809	2,861,809
Total fund balance	<u>860,283</u>	<u>518,106</u>	<u>99,796</u>	<u>163,772</u>	<u>27,753</u>	<u>131,075</u>	<u>201,669</u>	<u>259,196</u>	<u>10,636</u>	<u>3,975,196</u>	<u>6,247,482</u>
Total liabilities and fund balance	<u>\$ 946,904</u>	<u>\$ 536,109</u>	<u>\$ 176,706</u>	<u>\$ 163,772</u>	<u>\$ 27,753</u>	<u>\$ 131,075</u>	<u>\$ 341,241</u>	<u>\$ 268,384</u>	<u>\$ 10,636</u>	<u>\$ 5,529,856</u>	<u>\$ 8,132,436</u>

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2015

	Special Revenue										Total Nonmajor Governmental Funds
	State Liquid Fuels Tax Fund	Host Municipality Fees Fund	Parks and Property Improvement Fund	Blight Remediation	Special Events	Fire Protection	Police Protection	Parks and Recreation	WHBG-TV	Capital Projects	
Revenues											
Intergovernmental revenue	\$ 1,085,782	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 47,500	\$ -	\$ -	\$ 1,133,282
Department earnings and program revenue	-	299,278	-	19,706	22,933	9,114	6,115	141,305	11,275	1,051,607	1,561,333
Miscellaneous	-	-	-	-	3,000	19,151	15,886	185,887	-	-	223,924
Total revenues	1,085,782	299,278	-	19,706	25,933	28,265	22,001	374,692	11,275	1,051,607	2,918,539
Expenditures											
Current											
General government	-	-	-	-	-	-	-	-	639	-	639
Community and economic development	-	-	-	-	-	-	-	218,082	-	-	218,082
Public safety	-	-	-	268,553	-	17,690	105	-	-	-	286,348
Public works	728,738	-	-	-	-	-	-	-	-	-	728,738
Environment	-	243,713	-	-	-	-	-	-	-	-	243,713
Capital outlay	-	-	-	-	-	-	-	-	-	1,113,208	1,113,208
Debt service											
Principal retirements	-	-	-	-	-	-	-	-	-	8,628	8,628
Total expenditures	728,738	243,713	-	268,553	-	17,690	105	218,082	639	1,121,836	2,599,356
Excess of revenues over (under) expenditures	357,044	55,565	-	(248,847)	25,933	10,575	21,896	156,610	10,636	(70,229)	319,183
Other financing sources (uses)											
Sale of general capital assets	-	-	-	-	-	38,000	-	-	-	-	38,000
Capital lease	-	-	-	-	-	-	-	-	-	3,254,033	3,254,033
Transfers in	2,659	-	-	412,619	1,820	82,500	179,773	102,586	-	-	781,957
Transfers out	-	-	(15,176)	-	-	-	-	-	-	(997,768)	(1,012,944)
Total other financing sources (uses)	2,659	-	(15,176)	412,619	1,820	120,500	179,773	102,586	-	2,256,265	3,061,046
Net change in fund balances	359,703	55,565	(15,176)	163,772	27,753	131,075	201,669	259,196	10,636	2,186,036	3,380,229
Fund balances - beginning of year	500,580	462,541	114,972	-	-	-	-	-	-	1,789,160	2,867,253
Fund balances - end of year	\$ 860,283	\$ 518,106	\$ 99,796	\$ 163,772	\$ 27,753	\$ 131,075	\$ 201,669	\$ 259,196	\$ 10,636	\$ 3,975,196	\$ 6,247,482

CITY OF HARRISBURG, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULES
BUDGETARY (NON-GAAP) BASIS - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2015

	Nonmajor Fund					Major Fund				
	State Liquid Fuels Tax Fund					Debt Service Fund				
	Original Budget	Final Budget	Variance of Original with Final Budget Positive (Negative)	Actual	Variance of Actual with Final Budget Positive (Negative)	Original Budget	Final Budget	Variance of Original with Final Budget Positive (Negative)	Actual	Variance of Actual with Final Budget Positive (Negative)
Revenues										
Intergovernmental revenue	\$ 983,824	\$ 1,085,782	\$ 101,958	\$ 1,085,782	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment income	190	190	-	-	(190)	475,738	475,738	-	431,617	(44,121)
Total revenues	984,014	1,085,972	101,958	1,085,782	(190)	475,738	475,738	-	431,617	(44,121)
Expenditures										
Public works	984,014	1,125,972	(141,958)	745,242	380,730	94,000	94,000	-	61,300	32,700
Debt service	-	-	-	-	-	8,773,968	8,773,968	-	8,773,925	43
Total expenditures	984,014	1,125,972	(141,958)	745,242	380,730	8,867,968	8,867,968	-	8,835,225	32,743
Excess of revenues over (under) expenditures	-	(40,000)	(40,000)	340,540	380,540	(8,392,230)	(8,392,230)	-	(8,403,608)	(11,378)
Other financing sources (uses)										
Transfers in	-	-	-	2,659	2,659	8,273,230	8,273,230	-	8,358,230	85,000
Total other financing sources (uses)	-	-	-	2,659	2,659	8,273,230	8,273,230	-	8,358,230	85,000
Net change in fund balance	-	(40,000)	(40,000)	343,199	383,199	(119,000)	(119,000)	-	(45,378)	73,622
Fund balance - beginning of year, budgetary basis	-	40,000	40,000	624,788	584,788	119,000	119,000	-	111,662	(7,338)
Fund balance - end of year, budgetary basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 967,987</u>	<u>\$ 967,987</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,284</u>	<u>\$ 66,284</u>
Explanation of differences between budget basis and GAAP:										
Net change in fund balance - budgetary basis				\$ 343,199					\$ (45,378)	
Accrued expenditures - December 31, 2014				103,126					-	
Accrued expenditures - December 31, 2015				<u>(86,622)</u>					<u>(30,650)</u>	
Net change in fund balance - GAAP basis				<u>\$ 359,703</u>					<u>\$ (76,028)</u>	

CITY OF HARRISBURG, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULES
BUDGETARY (NON-GAAP) BASIS - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2015

	Nonmajor Fund				
	Host Municipality Fees Fund				
	Original Budget	Final Budget	Variance of Original with Final Budget Positive (Negative)	Actual	Variance of Actual with Final Budget Positive (Negative)
Revenues					
Intergovernmental revenue	\$ 280,000	\$ 280,000	\$ -	\$ 288,287	\$ 8,287
Department earnings and program revenue	-	-	-	40,653	40,653
Total revenues	280,000	280,000	-	328,940	48,940
Expenditures					
Environment	544,037	594,037	(50,000)	226,299	367,738
Total expenditures	544,037	594,037	(50,000)	226,299	367,738
Net change in fund balance	(264,037)	(314,037)	(50,000)	102,641	416,678
Fund balance - beginning of year, budgetary basis	264,500	314,500	50,000	352,948	38,448
Fund balance - end of year, budgetary basis	<u>\$ 463</u>	<u>\$ 463</u>	<u>\$ -</u>	<u>\$ 455,589</u>	<u>\$ 455,126</u>
Explanation of differences between budget basis and GAAP:					
Net change in fund balance - budgetary basis				\$ 102,641	
Accrued expenditures - December 31, 2014				589	
Accrued expenditures - December 31, 2015				(18,003)	
Accrued revenues - December 31, 2014				(110,182)	
Accrued revenues - December 31, 2015				80,520	
Net change in fund balance - GAAP basis				<u>\$ 55,565</u>	

CITY OF HARRISBURG, PENNSYLVANIA
DESCRIPTION OF FUNDS
AGENCY FUNDS

Agency Funds

The School Tax Collection Fund is used to account for the collection and payment to the school district of property taxes billed and collected on its behalf.

The Payroll and Other Escrow Liabilities Fund is used to account for the collection and payment of miscellaneous escrow liabilities.

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS
DECEMBER 31, 2015

	<u>School Tax Collection</u>	<u>Payroll and Other Escrow Liabilities</u>	<u>Total Agency Funds</u>
ASSETS			
Cash and cash equivalents	<u>\$ 482,666</u>	<u>\$ 932,571</u>	<u>\$ 1,415,237</u>
Total assets	<u>482,666</u>	<u>932,571</u>	<u>1,415,237</u>
LIABILITIES			
Due to other governments	482,666	-	482,666
Due to City's General Fund	-	201,759	201,759
Escrow liabilities	<u>-</u>	<u>730,812</u>	<u>730,812</u>
Total liabilities	<u><u>\$ 482,666</u></u>	<u><u>\$ 932,571</u></u>	<u><u>\$ 1,415,237</u></u>

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2015

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>End of Year</u>
School Tax Collection				
Assets				
Cash and cash equivalents	<u>\$ 214,152</u>	<u>\$ 37,302,600</u>	<u>\$ 37,034,086</u>	<u>\$ 482,666</u>
Liabilities				
Due to other governments	<u>\$ 214,152</u>	<u>\$ 37,302,600</u>	<u>\$ 37,034,086</u>	<u>\$ 482,666</u>
 Payroll and Other Escrow Liabilities				
Assets				
Cash and cash equivalents	<u>\$ 1,261,650</u>	<u>\$ 27,723,027</u>	<u>\$ 28,052,106</u>	<u>\$ 932,571</u>
Liabilities				
Due to City's General Fund	\$ 202,153	\$ -	\$ 394	\$ 201,759
Due to others	348,709	-	348,709	-
Escrow liabilities	<u>710,788</u>	<u>27,723,027</u>	<u>27,703,003</u>	<u>730,812</u>
Total liabilities	<u>\$ 1,261,650</u>	<u>\$ 27,723,027</u>	<u>\$ 28,052,106</u>	<u>\$ 932,571</u>
 Total Agency Funds				
Assets				
Cash and cash equivalents	<u>\$ 1,475,802</u>	<u>\$ 65,025,627</u>	<u>\$ 65,086,192</u>	<u>\$ 1,415,237</u>
Liabilities				
Due to other governments	\$ 214,152	\$ 37,302,600	\$ 37,034,086	\$ 482,666
Due to City's General Fund	202,153	-	394	201,759
Due to others	348,709	-	348,709	-
Escrow liabilities	<u>710,788</u>	<u>27,723,027</u>	<u>27,703,003</u>	<u>730,812</u>
Total liabilities	<u>\$ 1,475,802</u>	<u>\$ 65,025,627</u>	<u>\$ 65,086,192</u>	<u>\$ 1,415,237</u>

City of Harrisburg, Pennsylvania

Independent Auditor's Reports
Required by the Uniform Guidance

Year Ended December 31, 2015

**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Honorable Eric R. Papenfuse, Mayor
and Honorable Members of City Council
City of Harrisburg, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Harrisburg, Pennsylvania (City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 26, 2016. Our report includes a reference to another auditor who audited the financial statements of the Harrisburg Downtown Improvement District, Inc., as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by the other auditor. The financial statements of the Harrisburg Parking Authority, the Harrisburg Downtown Improvement District, Inc., and the Redevelopment Authority of the City of Harrisburg were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Harrisburg Parking Authority, the Harrisburg Downtown Improvement District, Inc., and the Redevelopment Authority of the City of Harrisburg.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented,

The Honorable Eric R. Papenfuse, Mayor
and Honorable Members of City Council
City of Harrisburg, Pennsylvania
Independent Auditor's Report on Internal
Control over Financial Reporting and on
Compliance and Other Matters

or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and question costs as Findings 2015-001, 2015-003, 2015-004, and 2015-005, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2015-002.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maher Duessel

Harrisburg, Pennsylvania
September 26, 2016

**Independent Auditor's Report on Compliance for the Major Program
and on Internal Control over Compliance Required by the Uniform Guidance**

The Honorable Eric R. Papenfuse, Mayor
and Honorable Members of City Council
City of Harrisburg, Pennsylvania

Report on Compliance for the Major Federal Program

We have audited the City of Harrisburg, Pennsylvania's (City) compliance with the types of compliance requirements described in the Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2015. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

The Honorable Eric R. Papenfuse, Mayor,
and Honorable Members of City Council
City of Harrisburg, Pennsylvania
Independent Auditor's Report on Compliance
for the Major Program

Basis for Qualified Opinion on the Major Federal Program

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2015-006	14.218	Community Development Block Grants/Entitlement Grants	Cash Management
2015-008	14.218	Community Development Block Grants/Entitlement Grants	Subrecipient Monitoring
2015-009	14.218	Community Development Block Grants/Entitlement Grants	Program Income

Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Qualified Opinion on the Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its Community Development Block Grants/Entitlement Grants program for the year ended December 31, 2015.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as follows:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2015-006	14.900	Lead-Based Paint Hazard Control Program	Cash Management
2015-006	20.205	Highway Planning and Construction	Cash Management
2015-007	16.710	Public Safety Partnership and Community Policing Grants – ARRA	Reporting
2015-008	14.239	Home Investment Partnerships Program	Subrecipient Monitoring

Our opinion on the major federal program is not modified with respect to these matters.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not

The Honorable Eric R. Papenfuse, Mayor,
and Honorable Members of City Council
City of Harrisburg, Pennsylvania
Independent Auditor's Report on Compliance
for the Major Program

subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as Findings 2015-006, 2015-008, and 2015-009, that we consider to be material weaknesses.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The Honorable Eric R. Papenfuse, Mayor,
and Honorable Members of City Council
City of Harrisburg, Pennsylvania
Independent Auditor's Report on Compliance
for the Major Program

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Maher Duessel

Harrisburg, Pennsylvania
September 26, 2016

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Pass-Through to Subrecipients
U.S. Department of Housing and Urban Development					
Community Development Block Grants/Entitlement Grants	D	14.218	N/A	\$ 2,300,328	\$ 493,983
Emergency Solutions Grant Program	D	14.231	N/A	42,194	42,194
Home Investment Partnerships Program	D	14.239	N/A	562,228	117,102
Lead-Based Paint Hazard Control Program	D	14.900	N/A	223,526	-
Total U.S. Department of Housing and Urban Development				3,128,276	653,279
U.S. Department of Interior					
Historical Preservation Fund Grants-in-Aid	D	15.904	N/A	16,110	-
U.S. Environmental Protection Agency					
Congressionally Mandated Projects	D	66.202	N/A	171,762	-
U.S. Department of Justice					
Bulletproof Vest Partnership Program	D	16.607	N/A	11,918	-
Public Safety Partnership and Community Policing Grants - ARRA	D	16.710	N/A	69,650	-
Total U.S. Department of Justice				81,568	-
U.S. Department of Transportation					
Passed through the Pennsylvania Department of Transportation:					
Highway Planning and Construction	I	20.205	47524	4,152	-
U.S. Department of Homeland Security - Federal Emergency Management Agency					
Passed through the Pennsylvania Emergency Management Agency:					
Disaster Grants - Public Assistance	I	97.036	FEMA-4030-DR-PA-043-32800-00	232,690	-
Assistance to Firefighters Grant	D	97.044	N/A	50,589	-
Total U.S. Department of Homeland Security - Federal Emergency Management Agency				283,279	-
Total Expenditures of Federal Awards				\$ 3,685,147	\$ 653,279

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2015

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the primary government of the City of Harrisburg (City), Pennsylvania. The City's reporting entity is defined in Note 1(a) to the City's basic financial statements. Federal awards expended directly from federal agencies as well as federal awards passed through other government agencies are included on the Schedule.

2. BASIS OF ACCOUNTING

Generally, expenditures are recognized in the Schedule on the modified accrual basis of accounting. Federal expenditures under loan programs consist of loans disbursed during the year ended December 31, 2015.

3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the City's basic financial statements.

Such expenditures are recognized following, as applicable, either the cost principles in the U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The City has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. SECTION 108 LOANS

The City entered into various promissory notes under Section 108 of the Housing and Community Development Act of 1974 (Public Law 93-383), as amended. The proceeds from the notes were to administer acquisition, relocation, clearance, rehabilitation, and disposition of City properties. These notes do not have continuing compliance requirements.

As collateral, the City pledged all grants approved or for which the City may become eligible under Title I of the Housing and Community Development Act of 1974, as amended, and program income derived from disposition by sale or lease of any real property to the extent acquired or rehabilitated with the guaranteed loan funds, including any interest earned on such disposition proceeds.

Interest payments are required to be made to the Federal Financing Bank on the daily unpaid principal balances.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2015

The composition of promissory notes outstanding under Section 108 at December 31, 2015 is as follows:

<u>Date of Notice</u>	<u>Amount of Note</u>	<u>Interest Rate</u>	<u>Required Interest Payment</u>	<u>Principal Balance December 31, 2015</u>	<u>2015 Principal Payments</u>
May 13, 2000	\$ 3,960,000	Variable *	Semi-annually, February and August 1st	\$ 1,235,000	\$ 270,000
September 14, 2006	\$ 3,795,000	4.99%- 5.77%	Semi-annually, February and August 1st	<u>2,325,000</u>	<u>210,000</u>
				<u>\$ 3,560,000</u>	<u>\$ 480,000</u>

* - Based on 90-day LIBOR plus 20 basis points (.81% at December 31, 2015)

Section 108 loans changed during the year as follows:

<u>Beginning of Year</u>	<u>Additions</u>	<u>Payments</u>	<u>End of Year</u>
<u>\$ 4,040,000</u>	<u>\$ -</u>	<u>\$ 480,000</u>	<u>\$ 3,560,000</u>

5. CONTINGENCIES

Certain Housing and Urban Development (HUD) Grant Funds were required to be deposited into a separate, identifiable, custodial "Guaranteed Loan Funds Account." The contract required that all funds in the Guaranteed Loan Funds Account be withdrawn and disbursed by the City for approved activities by September 30, 2008. Effective May 2008, the North Cameron Street Project, funded through HUD, was suspended due to allegations of improper financial management by the subgrantee. The ultimate outcome of this matter is subject to significant uncertainty. At December 31, 2015, the City is holding the remaining Section 108 Guaranteed Funds, in the amount of \$10,070, in a separate account and using the funds to pay down the outstanding loan balance.

CITY OF HARRISBURG, PENNSYLVANIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2015

Prior Year Findings

II – Findings related to the financial statements which are required to be reported in accordance with GAGAS.

Control Deficiency: Material Weakness

Finding 2014-001: Monitoring and Reconciliation of Loans Receivable

Condition: For the Department of Building and Housing Development (DBHD) loans, administered by DBHD, we noted the following items:

- Consistent with prior years, DBHD loan construction projects are not set up to earn interest at the percentage and for the terms as shown in their loan agreements. Per discussion with management, it has been determined that Portfolio (the City's loan management system) does have the ability to automatically accrue interest on the outstanding balance. However, management has decided not to utilize this feature, as these construction project loans function as deferred grants in which a portion of the loan balance is forgiven each year and full payment of principal plus accrued interest is only due in the event of default.
- During testing of the loans outstanding for DBHD, it was noted that a loan receivable was recorded for a loan that is no longer collectible. During the year ended December 31, 2014, the property was foreclosed. The City was not the senior lienholder position for the property and the Sheriff's Deed was given to another lienholder. This resulted in the discharge of the City's lien. Due to the discharge of the lien, the City should have written off the loan during the year ended December 31, 2014. The net amount of the loan was \$524,867.

For the Mayor's Office of Equal Economic Opportunity (MOEEO) (formerly Mayor's Office of Economic Development or MOED) loans, administered by DBHD, we noted the following items:

- Loan balances per Portfolio were not reconciled to the general ledger balances recorded in Pentamation, the City's accounting system.
- No written policies and procedures manual exists for the issuance of loans, formal notification of disapproval, assessing late fees, processing change orders, and processing of payments.

Recommendation: With respect to the DBHD loans, we recommend that:

- Procedures be established to include the accrued interest on construction projects in Portfolio.
- Procedures be established to review all outstanding loans on at least an annual basis to ensure that all outstanding loans are collectible.

With respect to the MOEEO loans, we recommend that:

- Procedures be established to reconcile all outstanding loan balances in Portfolio to the Pentamation loan receivable general ledger balances of the State Grants Fund and General Fund on at least a quarterly basis.
- A written policies and procedures manual be prepared.

Current Status: This finding has been corrected in the current year.

Finding 2014-002: Financial Reporting

Condition: During the audit process, various material adjustments were proposed to the City's records by the auditors. These audit adjustments were necessary to correct transactions related to the net present value of the

CITY OF HARRISBURG, PENNSYLVANIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2015

notes receivable related to the Harrisburg Parking Authority lease proceeds, amounts due to Capital Region Water (CRW) under the shared services agreement and the transition agreement, recording of grant revenue, receivables (utility, taxes, and other) and related allowances and write-offs, due to other funds and due to other governments, and accounts payable. In addition, the General Fund and Governmental Activities financial statements were required to be restated because earned income tax revenue of \$774,680 was recorded twice for the year ended December 31, 2013.

Recommendation: We recommend that management review these transactions and evaluate whether measures can be taken by management to ensure that it can eliminate the financial reporting deficiencies as noted above.

Current Status: See current year Finding 2015-001.

Finding 2014-003: Debt Compliance

Condition: The City did not pay amounts due on its General Obligation Refunding Bonds, Series D of 1997 and General Obligation Refunding Notes, Series F of 1997 during the year ended December 31, 2014. Payments on the debt were made by the bond insurer under the insurance agreement per the trust indenture and in accordance with the AMBAC settlement agreement.

Recommendation: We recommend that management review these transactions and evaluate whether measures can be taken by management to ensure that it can meet the City's future debt obligations.

Current Status: See current year Finding 2015-002.

Finding 2014-004: Segregation of Duties

Condition: The City had segregation of duties issues noted in the following areas:

- Payments for MOEEO and DBHD loans are received directly by DBHD staff and recorded in the Portfolio system.
- Payments for building permits are received directly by the Bureau of Codes staff and the checks are not restrictively endorsed.
- Information Technology (IT) staff have control over multiple IT functions.

Recommendation: With respect to the MOEEO and DBHD loans, we recommend that the City work within the DBHD to properly segregate duties. With respect to building permit receipts, we recommend that all receipts go directly to the City Treasurer's office, as a central depository, and copies of check and/or a receipt be provided to the Bureau of Codes for recording in the appropriate system or authorization of the permit. With respect to IT staffing, we recommend that the information technology operations, librarian, systems analyst, programming, network, and administrative functions be performed by separate employees to ensure that no one person has control over multiple information technology functions.

Current Status: See current year Finding 2015-003.

Finding 2014-005: Reconciling Bank Accounts

Condition: The City's policy is that all bank account statements, other than payroll account bank statements, are to be received and reconciled by the City Treasurer's office on a monthly basis. Bank statements for the payroll accounts are to be received directly and reconciled by the Controller's office. During the audit, we noted the following:

CITY OF HARRISBURG, PENNSYLVANIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2015

- The payroll bank statements were received by the City Treasurer's office and then forwarded to the Controller's office and Finance Department.
- Monthly reconciliations for the year ended December 31, 2014 were not prepared timely or provided to the Controller's office timely for review.
- Although the monthly reconciliations were prepared, they did not reflect any adjustments related to the 2009, 2010, 2011, 2012, or 2013 audits.
- Bank reconciliations included transactions that were not appropriately reflected in the general ledger system including transfers related to credit card and automated clearinghouse transaction that had not been transferred to the appropriate funds/entities.

Recommendation: We recommend that the City follow its policies for which department should receive its bank accounts statements and that all bank accounts be reconciled and reviewed on a timely basis.

Current Status: See current year Finding 2015-004.

Finding 2014-006: Schedule of Expenditures of Federal Awards

Condition: For the year ended December 31, 2014, the City provided a summary schedule of federal expenditures; however, the schedule was not materially accurate. Material adjustments were made to the Community Development Block Grants/Entitlement grants to accurately report expenditures of federal funds for the year ended December 31, 2014.

Recommendation: We recommend that the City implement procedures to ensure that all federal expenditures are included on the schedule of expenditures of federal awards.

Current Status: This finding has been corrected in the current year.

Finding 2014-007: Recording and Reconciliation of Shared Services Revenue and Expense

Condition: The City incurred certain revenues and expenditures under the Shared Service Agreement between the CRW. We noted the following items:

- Shared service expenditures were netted with revenue on certain invoices and, therefore, did not follow the City's voucher process.
- Per the shared services agreement, within 60 days after the end of each term, the parties are required to reconcile the actual costs for providing services to CRW to the costs in the budget provided pursuant to the shared services schedule. The City and CRW are to then reduce or increase the payments for the services based on actual costs. No such reconciliation occurred for the year ended December 31, 2014.
- Per the shared services agreement, budgeted expenditures are to be invoiced in advance for the month in which they are incurred; time and material expenditures are to be invoiced after costs are incurred; and other expenses are to be invoiced monthly. During testing of the shared services revenue and expenditures, it was noted that invoices to CRW for services provided in January through June 2014 were not billed until July 2014, and shared services payments to CRW for January through June 2014 were not paid until July 2014.

Recommendation: We recommend that procedures be established to record shared services revenue and expenditures at the appropriate amounts, to reconcile budgeted amounts to actual amounts and reduce or increase the subsequent payment based on the reconciliation, and to bill and pay shared services in a timely manner.

Current Status: See current year Finding 2015-005.

CITY OF HARRISBURG, PENNSYLVANIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2015

III – Findings and questioned costs for federal awards.

Control Deficiency: Material Weakness

Finding 2014-008: Cash Management

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Housing and Urban Development – Home Investment Partnerships Program (CFDA #14.239); U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control Program (CFDA #14.900); U.S. Department of Transportation – Passed through the Pennsylvania Department of Transportation – Highway Planning and Construction (CFDA #20.205); U.S. Department of Homeland Security - Staffing for Adequate Fire and Emergency Response (CFDA #97.083)

Condition: During the audit, six out of the nine reimbursement requests selected for testing related to the Community Development Block Grants/Entitlement Program contained invoices for allowable costs that were not paid within ten calendar days of the date of the U.S. Department of Housing and Urban Development's (HUD) remittance.

During the audit, five out of eight reimbursement requests selected for testing related to the Home Investment Partnerships Program contained invoices for allowable costs that were not paid within ten calendar days of the date of HUD's remittance.

During the audit, one out of four reimbursement requests selected for testing related to the Lead-Based Paint Hazard Control Program contained invoices for allowable costs that were not paid within ten calendar days of the date of HUD's remittance.

During the audit, three out of three reimbursement requests selected for testing related to the Highway Planning and Construction Program contained invoices for allowable costs that were not paid within ten calendar days of the Commonwealth of Pennsylvania's (Commonwealth) remittance.

During the audit, the City drew down money from the Department of Homeland Security Integrated Security and Access system for expenses that were not incurred by the City in the amount of \$30,930 for the Staffing for Adequate Fire and Emergency Response.

Recommendation: The City should establish controls to minimize the time elapsing between the receipt of federal funds and disbursements to vendors (defined as ten calendar days by the Pennsylvania Department of Transportation).

Current Status: This finding has been corrected in the current year for U.S. Department of Housing and Urban Development – Home Investment Partnerships Program (CFDA #14.239) and U.S. Department of Homeland Security - Staffing for Adequate Fire and Emergency Response (CFDA #97.083).

See current year Finding 2015-006 related to U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control Program (CFDA #14.900); and U.S. Department of Transportation – Passed through the Pennsylvania Department of Transportation – Highway Planning and Construction (CFDA #20.205).

CITY OF HARRISBURG, PENNSYLVANIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2015

Finding 2014-009: Preparing Required Reports

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control Program (CFDA #14.900); U.S. Department of Justice – Public Safety Partnership and Community Policing Grants – ARRA (CFDA #16.710); U.S. Department of Homeland Security - Staffing for Adequate Fire and Emergency Response (CFDA #97.083)

Condition: The City did not report accurate information on the Federal Financial Reports for any of the four quarters selected for testing related to the Community Development Block Grants/Entitlement Grants Program, Lead-Based Paint Hazard Control Program, or the Public Safety Partnership and Community Policing Grants – ARRA Program. The City did not report accurate information on the Federal Financial Reports for both of the semiannual reports selected for testing related to the Staffing for Adequate Fire and Emergency Response (SAFER) Program.

The City did not report accurate information on the PR26 – CDBG Financial Summary Report related to the Community Development Block Grants/Entitlement Grants Program.

The City was unable to provide the quarterly Federal Progress Reports related to the Lead-Based Paint Hazard Control Program.

Recommendation: The City should implement procedures to ensure that all reports are reconciled to the general ledger system and prepared by an individual knowledgeable of the reporting requirements. The reports should be reviewed and approved by an individual, other than the preparer, who is also knowledgeable of the reporting requirements.

Current Status: This finding has been corrected in the current year for U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control Program (CFDA #14.900); and U.S. Department of Homeland Security - Staffing for Adequate Fire and Emergency Response (CFDA #97.083).

See current year Finding 2015-007 related to U.S. Department of Justice – Public Safety Partnership and Community Policing Grants – ARRA (CFDA #16.710).

Finding 2014-010: Subrecipient Monitoring

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218) and U.S. Department of Housing and Urban Development – Home Investment Partnerships Program (CFDA #14.239)

Condition: During the audit, the City was unable to provide evidence that monitoring was performed during the year for any of the subrecipients selected for testing from the Community Development Block Grants/Entitlement Grants Program and the Home Investment Partnerships Program.

Recommendation: The City should establish controls to ensure that subrecipient monitoring occurs as required for all federal funding passed through from the City to subrecipients.

Current Status: See current year Finding 2015-008.

CITY OF HARRISBURG, PENNSYLVANIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2015

Finding 2014-011: Program Income

U.S. Department of Housing and Urban Development - Community Development Block Grants/Entitlement Grants (CFDA #14.218)

Condition: During the audit, the City did not expend the program income received during 2014 for eligible activities prior to drawing down additional entitlement funds.

Recommendation: The City should implement procedures to ensure that all program income received is properly reported as program income in IDIS in the proper program year and the funds received are expended for eligible activities prior to drawing down additional funds.

Current Status: See current year Finding 2015-009.

Finding 2014-012: Matching

U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control Program (CFDA #14.900)

Condition: During testing of the match for the City of Harrisburg Lead-Based Paint Hazard Control Program (LEAD), it was noted that there were no internal controls in place to ensure that the LEAD match was being met by the City. The City did not start documenting the match for the LEAD grant until 2013, a year after the grant had started. Management reviewed timesheets in order to document the matched amount.

Recommendation: The City should implement procedures to document and track matching requirements.

Current Status: All funds related to the grant were remitted to the City in the prior year. Therefore, there is no matching requirement in the current year.

Finding 2014-013: Allowability

U.S. Department of Homeland Security - Staffing for Adequate Fire and Emergency Response (CFDA #97.083)

Condition: The City requested reimbursement for pay rate increases that the City never gave to its firefighters. The City received reimbursement for expenses that were never incurred by the City.

Recommendation: The City should implement procedures to ensure that requests for reimbursements are being reviewed by individuals knowledgeable of the grant's allowable costs, as well as someone other than the individual submitting the cash request.

Current Status: The grant was fully expended in the prior year. Therefore, allowability was not applicable in the current year.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified, prepared in accordance with Generally Accepted Accounting Principles
2. Internal control over financial reporting:
Material weakness(es) identified? ☒ yes ☐ no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?
☐ yes ☒ none reported
3. Noncompliance material to financial statements noted? ☒ yes ☐ no
4. Internal control over major programs:
Material weakness(es) identified? ☒ yes ☐ no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?
☐ yes ☒ none reported
5. Type of auditor's report issued on compliance for major programs: Qualified
6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? ☒ yes ☐ no
7. Major Programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
14.218	Community Development Block Grants/Entitlement Grants
8. Dollar threshold used to distinguish between type A and type B programs: \$750,000
9. Auditee qualified as low-risk auditee? ☐ yes ☒ no

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015

II – Findings related to the financial statements which are required to be reported in accordance with GAGAS.

Control Deficiency: Material Weakness

Finding 2015-001: Financial Reporting

Repeat Finding – See Finding 2014-002

Condition: During the audit process, various material adjustments were proposed to the City's records by the auditors. These audit adjustments were necessary to correct transactions related to cash, the net present value of the notes receivable related to the Harrisburg Parking Authority lease proceeds, amounts due to/due from Capital Region Water (CRW) under the shared services agreement and the transition agreement, adjustments for disputed utility accounts and related amounts due to/due from other funds and due from CRW, recording of grant revenue and program income, receivables (utility, taxes, and other) and related allowances, due to other funds and due to other governments, debt proceeds, capital expenditures, and accounts payable.

Criteria: The City should have the ability to produce its financial statements in accordance with accounting principles generally accepted in the United States of America applicable to governmental entities (GAAP).

Cause: The City does not have adequate staffing to produce GAAP financial statements.

Effect: If the entity relies upon its auditors to assist them in producing GAAP financial statements, the auditor is required to communicate a significant deficiency or material weakness related to financial reporting.

Questioned Costs: This finding does not result in questioned costs.

Recommendation: We recommend that management review these transactions and evaluate whether measures can be taken by management to ensure that it can eliminate the financial reporting deficiencies as noted above.

Views of Responsible Officials: The City concurs and, as the financial situation of the City firms and allows its human capital capacity to increase, proper procedures will be implemented in order to address those differences in an appropriate and actionable timeframe.

Finding 2015-002: Debt Compliance

Repeat Finding – See Finding 2014-003

Condition: The City did not pay amounts due on its General Obligation Refunding Bonds, Series D of 1997 and General Obligation Refunding Notes, Series F of 1997 during the year ended December 31, 2015. Payments on the debt were made by the bond insurer under the insurance agreement per the trust indenture and in accordance with the AMBAC settlement agreement.

Criteria: The Series D of 1997 Bonds and F of 1997 Notes require principal and interest payments in accordance with the terms of the indenture.

Cause: Cash flow difficulties have prevented the City from making its required principal and interest payments.

Effect: Principal and interest payments have not been made in accordance with the terms of the indenture, causing the bond insurer to pay a portion of the amount due.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015

Questioned Costs: This finding does not result in any questioned costs.

Recommendation: We recommend that management review these transactions and evaluate whether measures can be taken by management to ensure that it can meet the City's future debt obligations.

Views of Responsible Officials: The City concurs and intends to comply as soon as the financial situation of the City firms. The AMBAC (bond insurer) settlement agreement was constructed as such in order to give the City fiscal flexibility as it emerged from State Receivership and continues to endeavor to emerge from its Act 47 designation.

Finding 2015-003: Segregation of Duties

Repeat Finding – See Finding 2014-004

Condition: The City had segregation of duties issues noted in the Bureau of Information Technology (IT) where staff have control over multiple IT functions.

Criteria: In order to ensure that all City IT functions are performed appropriately, the City needs to establish proper segregation of duties.

Cause: The City does not have adequate staffing involved in each of the processes for appropriate segregation of duties

Effect: Opportunities exist for undetected intentional or unintentional errors in the City's processes.

Questioned Costs: This finding does not result in any questioned costs.

Recommendation: We recommend that the information technology operations, librarian, systems analyst, programming, network, and administrative functions be performed by separate employees to ensure that no one person has control over multiple information technology functions.

Views of Responsible Officials: The City understands the recommendation of the auditor regarding this finding; however, the City respectfully disagrees with the recommended solution. While a full segregation of duties was common in a large, legacy IT environment of the past, the City feels today's agile IT environment warrants a more cross-trained, redundant IT team. To this end, the City has begun functional cross-training as well as identification of additional skillsets that can be brought to bear to the City's team members. The City feels this helps the City to mitigate risk given limited resources and to employ a modern thought process to bring IT services to the client.

Finding 2015-004: Reconciling Bank Accounts

Repeat Finding – See Finding 2014-005

Condition: The City's policy is that all bank account statements, other than payroll account bank statements, are to be received and reconciled by the City Treasurer's office on a monthly basis. Bank statements for the payroll accounts are to be received directly and reconciled by the Controller's office. During the audit, we noted the following:

- The payroll bank statements were received by the City Treasurer's office and then forwarded to the Controller's office and Finance Department.
- Monthly reconciliations for the year ended December 31, 2015 were not prepared timely or provided to the Controller's office timely for review.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015

- Although the monthly reconciliations were prepared, they did not reflect any adjustments related to the 2009, 2010, 2011, 2012, 2013, or 2014 audits.
- Bank reconciliations included transactions that were not appropriately reflected in the general ledger system including transfers related to credit card and automated clearinghouse transaction that had not been transferred to the appropriate funds/entities in the amount of \$561,967 and transfers related to adjustment of credit balances for disputed accounts in the amount of \$335,092.

Criteria: In order to accurately report the City's cash balances, the City should reconcile the bank accounts on a timely basis.

Cause: The City did not follow its policy for preparation or review of the bank reconciliations on a timely basis.

Effect: The City bank reconciliations did not reflect all adjustments from previous years' audits and the bank reconciliations included reconciling items for transfers to other funds and other entities that did not occur during the year ended December 31, 2015. Finally, the bank reconciliations were not prepared or reviewed on a timely basis.

Questioned Costs: This finding does not result in any questioned costs.

Recommendation: We recommend that the City follow its policies regarding which department should receive its bank accounts statements, that bank reconciliations reflect only those transactions that occurred during the year, and that all bank accounts be reconciled and reviewed on a timely basis.

Views of Responsible Officials: The City concurs and procedures have been implemented in order to rectify in an appropriate and actionable timeframe, upon discussion and agreement between all relevant administration departmental staff and elected officials involved.

Finding 2015-005: Recording and Reconciliation of Shared Services Revenue and Expense and Invoicing Other Post-Employment Expenses for Water and Sewer Retirees

Repeat Finding – See Finding 2014-007

Condition: The City incurred certain revenues and expenditures under the Shared Service Agreement and the Transition Agreement with Capital Region Water (CRW). We noted the following items:

- Shared service expenditures for the years ended December 31, 2013 and 2014 were reconciled by CRW and the City during the year ended December 31, 2015; however, no adjustments related to this reconciliation were reflected in the general ledger for the year ended December 31, 2015.
- Per the shared services agreement, within 60 days after the end of each term, the parties are required to reconcile the actual costs for providing services to CRW to the costs in the budget provided pursuant to the shared services schedule. The City and CRW are to then reduce or increase the payments for the services based on actual costs. No such reconciliation occurred for costs incurred during the year ended December 31, 2015.
- Per the shared services agreement, budgeted expenditures are to be invoiced in advance for the month in which they are incurred; time and material expenditures are to be invoiced after costs are incurred; and other expenses are to be invoiced monthly. During testing of the shared services revenue and expenditures, it was noted that invoices to CRW for street sweeping services provided for October through December 2015 totaling \$149,102 were not billed until April 2016.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015

- Per the transition agreement, CRW assumed responsibility for all costs for post-employment benefits related to Water and Sewer retirees. Costs are to be invoiced by the City to CRW on a monthly basis and paid within 30 days of receipt of the invoice. During our testing of other post-employment benefit costs, it was noted that invoices to CRW for costs incurred during the years ended December 31, 2014 and 2015 for water and sewer retirees totaling \$538,249 were not billed to CRW as of December 31, 2015.

Criteria: The City should review the shared services agreement and transition agreement and ensure that all items in the agreement are being followed.

Cause: The City does not have adequate procedures in place to ensure that all other post-employment benefit costs related to water and sewer retirees are being properly invoiced and to ensure that all shared services revenue and expenditures are being properly invoiced and reconciled to actual expenditures.

Effect: Shared service revenue and expenditures are not being recorded timely or at the appropriate amounts throughout the year and may be misstated. In addition, reimbursements for other post-employment costs related to water and sewer retirees are not being received timely.

Questioned Costs: This finding does not result in any questioned costs.

Recommendation: We recommend that procedures be established to record shared services revenue and expenditures at the appropriate amounts, to reconcile budgeted amounts to actual amounts and reduce or increase the subsequent payment based on the reconciliation, and to bill and pay shared services in a timely manner. We also recommend that procedures be established to invoice CRW timely for reimbursement of other post-employment costs for water and sewer retirees.

Views of Responsible Officials: The City concurs and will endeavor to develop timely reconciliation and invoicing procedures once City staffing returns to stable levels and unanticipated administrative and compliance issues with the Shared Services Agreement are resolved.

III – Findings and questioned costs for federal awards.

Control Deficiency: Material Weakness

Finding 2015-006: Cash Management

Repeat Finding – See Finding 2014-008

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control Program (CFDA #14.900); U.S. Department of Transportation – Passed through the Pennsylvania Department of Transportation – Highway Planning and Construction (CFDA #20.205)

Condition: During the audit, two of the seven reimbursement requests selected for testing related to the Community Development Block Grants/Entitlement Program contained invoices for allowable costs that were not paid within ten calendar days of the date of U.S. Department of Housing and Urban Development's (HUD) remittance.

During the audit, it was noted that the final funding request related to the 2011 - 2014 Lead-Based Paint Hazard Control Program grant was received by the City on January 5, 2015 and invoices for allowable costs were not paid within ten calendar days of the date of HUD's remittance.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015

During the audit, it was noted that there was only one reimbursement request related to the Highway Planning and Construction Program. The one reimbursement request selected for testing contained invoices for allowable costs that were not paid within ten calendar days of the Commonwealth of Pennsylvania's (Commonwealth) remittance.

Criteria: The OMB *Compliance Supplement* states that when funds are received, recipients must follow procedures to minimize the time elapsing between the receipt of federal funds and disbursements to vendors. For audit purposes, ten calendar days was considered reasonable when evaluating the time elapsed between the receipt of federal funds and disbursement to vendors.

The General Reimbursement Agreements for Federal-Aid Highway Projects entered into with the Commonwealth, acting through the Pennsylvania Department of Transportation, requires the City to pay the consultants and contractors within ten calendar days of the date of the Commonwealth's remittance.

Cause: The City does not have controls in place to ensure that invoices are paid in accordance with the OMB *Compliance Supplement* or General Reimbursement Agreements for Federal-Aid Projects between the Commonwealth and the City.

Effect: The City is not in compliance with cash management requirements. Failure to comply with grant award requirements could jeopardize future funding.

Questioned Costs: This finding does not result in questioned costs.

Recommendation: The City should establish controls to minimize the time elapsing between the receipt of federal funds and disbursements to vendors (defined as ten calendar days by the Pennsylvania Department of Transportation).

Views of Responsible Officials: The Department of Building and Housing Development (DBHD), in collaboration with the Bureau of Financial Management, has implemented a strategy to ensure that approved accounts payable are paid within ten (10) calendar days of the date of the United States Department of Housing and Urban Development's (HUD) draw down remittance. With respect to Highway Planning and Construction, the City concurs and is working on developing and implementing appropriate recording and approval procedures.

Finding 2015-007: Preparing Required Reports

Repeat Finding – See Finding 2014-009

U.S. Department of Justice – Public Safety Partnership and Community Policing Grants – ARRA (CFDA #16.710)

Condition: The City did not report accurate information on the Federal Financial Reports for the two quarters selected for testing related to the Public Safety Partnership and Community Policing Grants – ARRA Program.

Criteria: The City is required to submit quarterly Federal Financial Reports for the Public Safety Partnership and Community Policing Grants – ARRA Program. The expenditures for each quarter should reflect the amount of funds expended and recorded in the City's general ledger for that same quarter and on a cumulative basis.

Cause: The City does not have controls in place to ensure that quarterly reports are accurate or reviewed prior to submission.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015

Effect: The data on the Federal Financial Reports for the two quarters selected for testing related to the Public Safety Partnership and Community Policing Grants – ARRA Program did not reflect actual expenditures incurred for the time periods covered by the reports.

Questioned Costs: This finding does not result in questioned costs.

Recommendation: The City should implement procedures to ensure that all reports are reconciled and prepared by an individual knowledgeable of the reporting requirements. The reports should also be reviewed and approved by an individual, other than the preparer, who is also knowledgeable of the reporting requirements.

Views of Responsible Officials: The City concurs. All reports and reimbursements will be prepared by the Grants Office after receiving documentation that reconciles with actual expenditures. The reports will then be reviewed and approved by either the Accounting Manager or Director of Finance, depending on availability.

Finding 2015-008: Subrecipient Monitoring

Repeat Finding – See Finding 2014-010

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Housing and Urban Development – Home Investment Partnerships Program (CFDA #14.239)

Condition: During the audit, the City was unable to provide evidence that monitoring was performed during the year for one of the two subrecipients selected for testing from the Community Development Block Grants/Entitlement Grants Program and for the one subrecipient selected for testing from the Home Investment Partnerships Program.

Criteria: The Code of Federal Regulations (2 CFR Sections 200.330, .331 and .501(h)) requires that pass-through entities clearly identify the award and the applicable requirements, evaluate the subrecipient's risk of noncompliance, monitor the activities of the subrecipient, as necessary, to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves the performance goals, and follow up on any issues that were observed during monitoring.

Cause: The City does not have controls in place to ensure that the required monitoring is being performed and to ensure its subrecipients are in compliance with grant award requirements.

Effect: The City is not in compliance with subrecipient monitoring requirements. Failure to comply with grant award requirements could jeopardize future funding.

Questioned Costs: This finding does not result in questioned costs.

Recommendation: The City should establish controls to ensure that subrecipient monitoring occurs as required for all federal funding passed through from the City to subrecipients. Such monitoring procedures should include obtaining audited financial statements of the organization, performing and documenting visits to the facility, having tangible goals in place for the organization, and ensuring, on a quarterly basis, that the progress to achieving those goals are in place and are being met.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015

Views of Responsible Officials: During calendar year 2015, the Project Manager was trained to administer ongoing monitoring of all subrecipients. To date, the project manager has completed timely monitoring of each respective subrecipient using the Department's "Subrecipient Monitoring Plan." As the City continues to award subrecipients grants, these controls will remain in place to ensure that the required monitoring is being performed and to ensure its subrecipients are in compliance with grant award requirements. Any modification will be approved by the U.S. Department of Housing and Urban Development.

Finding 2015-009: Program Income

Repeat Finding – See Finding 2014-011

U.S. Department of Housing and Urban Development - Community Development Block Grants/Entitlement Grants (CFDA #14.218)

Condition: During the audit, the City did not expend the program income received during the year ended December 31, 2015 for eligible activities prior to drawing down additional entitlement funds.

Criteria: The Code of Federal Regulations (2 CFR Section 200.307(e)) requires program income to be disbursed for eligible activities before additional cash withdrawals are made from the U.S. Treasury. At the end of each program year, the aggregate amount of program income cash balances and any investment thereof that, as of the last day of the program year, exceeds one-twelfth of the most recent grant, shall be remitted to HUD as soon as practicable thereafter, to be placed in the City's line of credit.

Cause: The City does not have controls in place to ensure that program income is expended for eligible activities prior to drawing down additional entitlement funds.

Effect: The City drew down entitlement funding before completely exhausting all program income in Integrated Disbursement and Information System (IDIS).

The City is not in compliance with program income requirements. Failure to comply with grant award requirements could jeopardize future funding.

Questioned Costs: The amount of questioned costs, if any, is undeterminable.

Recommendation: The City should implement procedures to ensure that all program income received is properly reported as program income in IDIS in the proper program year and the funds received are expended for eligible activities prior to drawing down additional funds.

Views of Responsible Officials: DBHD believes it has procedures in place to ensure that all program income that is received is receipted to IDIS and processed for deposit with the Office of the Treasurer.